

A plan for budget repair

Final report

Prepared for the Northern Territory Government
by the Fiscal Strategy Panel

March 2019

Chairman's foreword

Following the release of the Interim Report on 14 December 2018, I am pleased to present the Fiscal Strategy Panel's Final Report, A Plan for Budget Repair.

During the preparation of the panel's interim report, it became clear that the Northern Territory faces an exceptionally challenging set of circumstances, namely an unprecedented reduction in the Territory's largest revenue source (GST) and sharply deteriorating economic conditions following the completion of the construction phase of the Ichthys LNG project (the largest project in the Territory's history).

It must be acknowledged that the Territory budget cannot be repaired in isolation of economic considerations. It is equally important that the Territory recognises that government stimulus is not a sustainable substitute for private investment.

The Territory urgently needs a concerted whole of Territory effort to attract private investment to expedite major projects and stimulate economic growth more broadly. This will have the dual benefit of providing sustainable jobs for Territorians and supporting budget repair through increased own-source revenues and reduced pressure for economic stimulus expenditure.

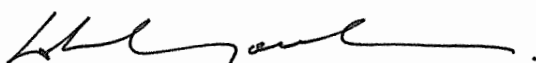
On the expenditure side, the Territory Government requires comprehensive cultural change to improve the integrity of the budget process and hold ministers and chief executives accountable for the financial performance of their respective portfolios and agencies. These changes to longstanding practices, which have been evident for more than a decade, are fundamental to placing the Territory on a path to fiscal sustainability.

There is no silver bullet to return the Territory budget to balance. The scale of the Territory's fiscal challenge and its current economic environment necessitate a sustained approach to budget repair. To this end, the panel has identified a comprehensive package of reforms that will support the Territory Government and agencies to reduce expenditure by around \$11.2 billion over 10 years, in comparison to a business as usual scenario, and return the Territory budget to balance by 2028-29.

Given the risk of a business as usual approach, it is essential that the Territory grasps this opportunity for reform for the benefit of current and future Territorians.

In developing this report the panel took into account a number of previous reviews and learnings from other jurisdictions and I am confident that the recommendations will, with a firm commitment from government, return the Territory's budget to balance in a sustainable manner over the medium term.

As Chair of the Panel, I would like to take this opportunity to thank my fellow panel members: Helen Silver, Craig Graham and Jodie Ryan. We would like to express our appreciation for the dedication and support from the Department of Treasury and Finance, in particular Tarrant Moore, and also thank the various agencies, industry stakeholders and individuals who have actively and generously provided feedback to us. That input has greatly enriched this report and helped inform our insights.



John Langoulant AO
Independent Chair
Fiscal Strategy Panel

Contents

Executive summary	3
1 Interim Report summary and stakeholder engagement	29
Summary of Interim Report	30
Stakeholder engagement and consultation	35
2 The Territory economy	39
The economy today and how we got here	39
Medium-term economic forecasts	43
Economic development	45
Budget repair and the economy	46
3 New fiscal strategy	51
Current strategy	52
New fiscal strategy	52
4 Pathway to surplus	59
What needs to change	62
Major challenges	64
5 Budget repair reforms	67
Goal 1. Accountability and transparency	70
Goal 2. Financial management	81
Goal 3. Workforce sustainability and capability	91
Goal 4. Organisational efficiency and strategic alignment	107
Goal 5. Evidence-based decision-making	120
Goal 6. Digital transformation	135
Goal 7. Revenue optimisation	146
6 Reform implementation and monitoring	165
Implementation	165
Monitoring and governance	167
Attachments	
A Fiscal Strategy Panel terms of reference	169
B Summary of recommendations	171

Executive summary

Introduction

In November 2018, the Territory Government established the Fiscal Strategy Panel to assess the Territory's fiscal outlook and develop a plan for budget repair over the medium term. The panel comprised John Langoulant (Chair), Helen Silver, Craig Graham and Jodie Ryan.

The panel's terms of reference (refer Attachment A) required the preparation of two reports:

- an interim report – an assessment of the Northern Territory's medium-term fiscal outlook and high-level overarching reform framework
- a final report – a prioritised action plan to return the Territory budget to a sustainable position over the medium term, including innovative reform opportunities.

The Interim Report was publicly released on 14 December 2018. The panel subsequently undertook a stakeholder engagement process over January and February 2019, seeking input via face-to-face discussions with stakeholder groups and written submissions from the broader community, to assist in the development of the framework for medium-term budget repair outlined in this report.

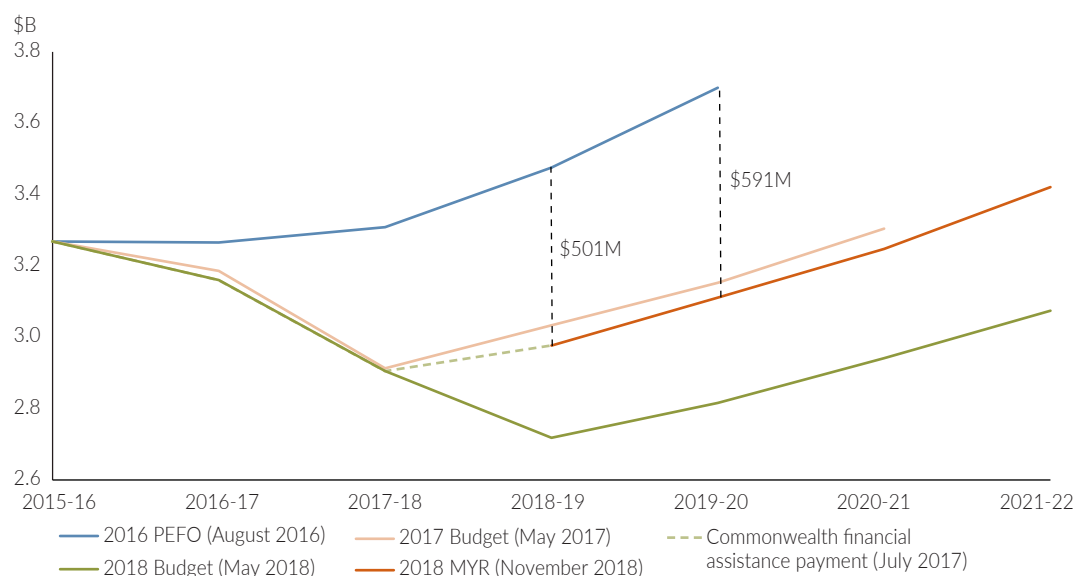
Interim Report

The Interim Report confirmed that the Territory faces serious financial challenges and is currently in the unsustainable position of borrowing to fund recurrent activities and interest costs.

The report identified that a \$3.4 billion reduction in the Territory's GST revenue was the principal cause of the deterioration in the Territory's fiscal position. However, the report also acknowledged that expenditure had persistently exceeded approved targets mainly due to increasing demand for government services (for example, health and child protection), unexpected costs associated with the Royal Commission into the Detention and Protection of Children in the Northern Territory, and costs related to significant economic and infrastructure stimulus.

While the decline in GST revenue has been partially offset by a one-off Commonwealth assistance payment and time-limited guarantees, the Territory's GST revenue is expected to be \$2.4 billion less between 2017-18 and 2021-22 (more than \$500 million per annum from 2018-19) compared to the 2016 Pre Election Fiscal Outlook (PEFO) forecasts (Chart i).

Chart i: GST revenue changes since the 2016 PEFO



Source: Department of Treasury and Finance

The Territory's share of GST revenue is expected to remain well below its historical average over the medium term, placing the Territory budget in structural deficit (that is, there is a fundamental imbalance between receipts and expenditures that is not related to cyclical or short-term factors).

To illustrate the effect of the fall in GST revenues on the Territory's fiscal prospects over the medium term, the Interim Report included two scenarios that modelled the Territory's key fiscal aggregates under different policy settings¹ as follows:

- Scenario 1: business as usual expenditure growth from 2018-19 onwards
- Scenario 2: sustained expenditure restraint supported by a new fiscal strategy and structural reforms to the Northern Territory Public Sector (NTPS).

Scenario 1 (business as usual) was included for illustrative purposes only and does not reflect the Territory Government's current fiscal strategy and budget targets. Scenario 2 reflects the budget targets as at the 2018 Mid-Year Report (that is, virtually no expenditure growth over the forward estimates) and assumes expenditure growth is restrained to around 3 per cent per annum over the projection period (2022-23 to 2029-30), compared to historical growth of around 6 per cent per annum.

The scenarios demonstrate that, in the absence of immediate and sustained restraint in expenditure growth, the next generation of Territorians will bear a growing burden of current expenditure through higher interest costs and reduced capacity for service delivery with interest expenses approaching \$2 billion per annum, or around 12 per cent of total expenditure by 2030. This also means a substantial proportion of borrowing over this period would be used to pay interest costs rather than deliver core government services and infrastructure.

The Territory already has an above-average net debt to revenue ratio (a key indicator of capacity to service debt). Should the Territory's budget continue to deteriorate (for example, Scenario 1), the cost of maintaining government service levels will escalate

¹ The difference between the scenarios was predominantly expenditure related. Both scenarios used the same GST and own-source revenue projections.

in the form of higher interest charges associated with lower credit ratings, eroding the Territory's capacity to sustainably manage interest costs. Therefore, the longer the debt is allowed to accumulate, the more difficult it will be to rein in spending and repair the budget.

In the long run, growing the Territory economy will increase the Territory Government's own-source revenue and reduce the Territory's reliance on GST. However, given the small size of the Territory Government's own-source revenue base relative to the size of the fiscal challenge, the Territory cannot grow its way back to a balanced budget in the timeframe required.

To avoid unsustainable growth in debt and subsequent interest costs, the government, the public service, industry and the community must reset their expectations and be prepared to work together to return the Territory budget to balance.

Stakeholder engagement

The Interim Report provided the basis for informed stakeholder engagement and community input to assist in the development of the framework for medium-term budget repair outlined in this report.

Stakeholders were provided with the opportunity to contribute through a variety of channels including discussions with the panel, written submissions and the Territory Government's 'Have Your Say' website.

A diverse range of views were expressed throughout the consultation process, however, several key themes emerged including:

- the economy is struggling and businesses are closing, particularly in the Greater Darwin region
- business confidence is low and new projects are not imminent
- attracting private investment is crucial to generating jobs, population growth and economic activity
- red, green and beige tape is creating uncertainty and is deterring private investment
- continuing government stimulus is not sustainable
- public sector wages and entitlements are generous compared with the local private sector making it difficult for the private and community sectors to compete
- significant reform and productivity increases across the public service are needed urgently.

The scale and pace of reform was discussed extensively during the stakeholder engagement process. A number of participants advocated for deep and immediate cuts to the NTPS, with the proceeds redirected towards economic enabling infrastructure and industry support². Other participants cautioned against significant reductions in the NTPS in the current economic environment due to the resulting impacts on economic and population growth.

² If reductions in the NTPS were fully offset by increased capital investment and industry support, this approach would not repair the budget.

On balance, it is the panel's view that severe austerity measures are not appropriate for the Territory at this stage in the economic cycle. Instead, the panel considers that sustained restraint in expenditure growth offers the most suitable balance between managing the Territory's economic and financial challenges.

Additionally, it should be acknowledged that the package of reforms proposed in this report represent the largest structural and cultural change to the NTPS since self-government and the level and duration of expenditure growth restraint proposed is unprecedented across the states and territories.

Final Report

Returning the Territory budget to balance without imposing austerity measures (scenario 2) requires the Territory Government to:

- operate within its 2018 Mid-Year Report budget and forward estimates allocations (which means virtually no expenditure growth for three years)
- limit expenditure growth over the projection period (2022-23 to 2029-30) to no more than 3 per cent per annum.

Achieving this outcome will require a combination of significant structural reform and prudent budget management to reduce expenditure by around \$11.2 billion over 10 years compared with a business as usual approach (scenario 1).

This report provides a package of 76 interdependent reforms to support the Territory Government and agencies to achieve the necessary level of expenditure growth restraint through:

- implementing a new fiscal strategy with a focus on ensuring government operates within its means and including government owned corporations given their impact on key fiscal targets
- adopting a Charter of Budget Discipline and improving the integrity of the budget process
- revising budget settings and making ministers and chief executives more accountable for operating within budget
- reforming the NTPS to improve effectiveness and capability, and stem the growth in employee numbers and costs
- reorganising agencies under a single enterprise mindset to reduce duplication and maximise outcomes
- using an evidence-based approach to evaluate programs and regulations, inform investment decisions, and free up resourcing
- embracing technology to deliver government services more efficiently and effectively
- optimising revenues, managing public investments in a commercial manner, and developing robust cost recovery policies with a focus on debt reduction.

Fundamentally, agencies must operate within their budget and that budget should be set once a year through a robust budget development process. In comparison to other

jurisdictions, there is scope to improve the Territory Government's longstanding approach to policy and budget development, the budget approval process, program monitoring and evaluation, and agency effectiveness and strategic alignment. Successive Territory Governments have also approved a significant amount of funding outside the annual budget development process, which erodes the integrity of the government's fiscal strategy and targets. These issues require urgent remediation through cultural change at both the agency and ministerial level.

A number of recommendations can be rapidly implemented as part of the 2019 Budget. Others that are more complex and/or require legislative change and stakeholder engagement will require the development of detailed implementation plans, including change management and communication strategies.

To support a sustained focus on budget repair across government, a robust framework will also need to be established to monitor the implementation of the recommendations in this report. The framework will need to be underpinned by a strong governance model with clear lines of accountability.

Budget repair cannot be progressed in a vacuum. The need to kick-start private investment was widely appreciated during the Interim Report stakeholder engagement process and this report includes recommendations for a refresh of the Territory's major project processes as well as microeconomic reform more broadly. The recommendations in this report also include reducing workforce costs through wages and entitlement reforms to balance the need for budget repair with the potential economic consequences of significant workforce reductions.

There is no 'silver bullet' to return the Territory budget to balance. The package of reforms recommended in this report is ambitious and will require a resolute commitment by the current and future governments. It is also important that industry leaders and the Territory community more broadly understand and acknowledge the limitations of government's spending capacity.

Finally, while the fiscal challenges facing the Territory are daunting they also represent a once in a generation opportunity to implement systemic reform to drive better services and outcomes for all Territorians.

Recommendations summary

This report contains an extensive range of recommendations that, if fully implemented, will impact the entire NTPS. The recommendations can be grouped into three focus areas:

- economic reforms to stimulate private investment
- fiscal strategy reforms to reset government's fiscal objectives towards medium-term budget repair
- whole of government structural reforms to support the new fiscal strategy, including
 - increasing financial accountability and transparency (goal 1)
 - improving financial management policies and processes (goal 2)
 - reforming the NTPS to deliver a sustainable and capable workforce (goal 3)

- organising agencies and functions more efficiently and effectively (goal 4)
- using evidence-based decision-making to drive effectiveness and efficiency (goal 5)
- digitally transforming the NTPS to drive innovation and reduce costs (goal 6)
- optimising revenue to support budget repair (goal 7).

A summary of the recommendations is provided below.

The Territory economy (Chapter 2)

Budget repair cannot be progressed in isolation of the Territory's economic performance. Attracting private investment and streamlining major project facilitation is the key to kick-starting an economic recovery in the Territory. A refresh of the Territory's major project processes as well as microeconomic reform more broadly are key enablers to making the Territory a globally competitive destination for investment capital.

Recommendation

- 2.1 Reform the current major projects process to expedite and improve the efficiency of project approvals.

Stakeholders raised the need for best practice major project approval processes to attract private investment to the Territory. There are a range of options to expedite and improve the efficiency of the Territory Government's current process, including:

1. adopting the Queensland Government's approach to major projects, which uses legislation to establish a statutory position (for example, a Northern Territory Coordinator General) that would provide an ability to cut through bureaucratic processes
2. establishing a one-stop-shop for declared priority major projects with resourcing able to be mobilised to expedite regulatory approval processes
3. increasing the level of chief executive oversight and accountability of approvals processes to prioritise major project regulatory approval against competing priorities
4. centralising a number of regulatory and investment attraction functions to improve the coordination of industry development and support, and reduce beige tape.

The panel considers option 4 offers the most appropriate way forward for the Territory.

Recommendation

- 2.2 Develop a microeconomic reform roadmap with the key objective of making the Territory a globally competitive capital investment destination.

Microeconomic reform can boost the Territory economy through:

- direct changes to the cost of production (for example, taxation, regulation and industrial relations policy)
- opening up the economy to external investment and enhancing competition (for example, developing investment opportunities and competition policy)

- influencing business and community perceptions through changes in policy settings, strategic priorities and the broader institutional environment.

Other jurisdictions, including New South Wales, Queensland and Victoria, are already progressing productivity, competition and efficiency reforms and the Territory cannot afford to be left behind given the highly mobile and competitive nature of global capital investment.

The Territory's microeconomic reform agenda should go beyond reducing touchpoints with government or increasing government's online capabilities, and create an overarching microeconomic reform roadmap with the objective of making the Territory a globally competitive capital investment destination.

This will require extensive stakeholder engagement, close collaboration and partnerships with the business community, the Commonwealth, local government and land councils.

Recommendation

- 2.3** Consolidate the major projects, microeconomic reform and investment attraction functions into an Office of Investment Attraction.

To support a more coordinated approach to attracting private investment to the Territory, the Territory Government should centralise the major projects and microeconomic reform functions within an Office of Investment Attraction. This should also include a rebalancing of existing investment attraction resources to increase the focus on microeconomic reform to improve the Territory's investment product.

Existing investment demand stimulation activities (for example, TeamNT and InvestNT) should also be incorporated into the Office to ensure a holistic approach to investment attraction.

This reform should be read in conjunction with recommendation 5.4.3.

A new fiscal strategy (Chapter 3)

The overall objectives of the current fiscal strategy remain sound, however, the relevance of a number of the fiscal targets has diminished following significant, successive and ongoing reductions in GST revenue since the 2017 Budget.

Recommendations

- 3.1** Retain the twin objectives of the current fiscal strategy but specify that budget repair is the primary objective.
- 3.2** Targets under the fiscal strategy should have a more medium to long-term focus.
- 3.3** Expand the principles and targets of the fiscal strategy to include government owned corporations.
- 3.4** Adopt the new fiscal strategy principles and targets outlined in Chapter 3.

The Territory's current fiscal strategy comprises short and medium-term fiscal targets, with the twin objectives of supporting the economy in the short term and providing a pathway back to a balanced budget and reduced debt levels over the medium term.

Given the magnitude of the fiscal challenges facing the Territory, returning the budget to balance should be identified as the primary objective.

The new strategy should adopt a more medium to long-term focus in recognition of the level and duration of reform required to return the Territory budget to balance. Additionally, the strategy should more explicitly reference government owned corporations in recognition of their impact on key public sector fiscal targets.

The new fiscal strategy should underpin resource allocation over the medium term, commencing from the 2019 Budget.

Recommendation

3.5 Adopt the proposed Charter of Budget Discipline.

Successive Territory Governments have adopted a culture of continuous budgeting, with significant additional expenditure approved outside the budget development process. The effectiveness of the new fiscal strategy will be heavily influenced by government's ability to change this culture and follow the expenditure trajectory approved in the budget.

To improve the integrity of the budget process, the Territory Government should adopt a Charter of Budget Discipline that, barring exceptional circumstances, would limit funding decisions to the annual budget development process.

The Charter of Budget Discipline would seek to change the current culture of budget management by:

- framing the budget around a statement of the Territory Government's strategic priorities for the year ahead from the Chief Minister
- elevating the budget development process so it becomes the single point in the year where Cabinet sets its expenditure priorities
- limiting funding requests outside the budget development process to exceptional circumstances and catastrophic events, including:
 - mandating that all proposals with resource implications be vetted by the Budget Review Subcommittee of Cabinet
 - mandating that any submissions with resourcing implications be required to include offsetting savings
 - adhering to circulation timeframes for submissions with resource implications to support rigorous analysis
- supporting well-considered policy making through reporting (such as key performance indicators in Budget Paper No. 3) the proportion of submissions with resource implications that are:
 - approved for shortened circulation (limiting the time agencies have to analyse the proposal and prepare advice)
 - approved for late lodgement with Cabinet Office (limiting the time ministers have to analyse the proposal).

Whole of government reforms (Chapter 5)

To support the new fiscal strategy and Charter of Budget Discipline, the Territory Government should introduce a range of structural reforms to restrain expenditure growth across the NTPS. A number of revenue reforms are also recommended, however, the Territory's relatively small economic base and current economic circumstances mean that revenue reforms have a more modest role in returning the Territory budget to balance over the medium term.

Goal 1: Accountability and transparency

A transparent and accountable budget framework and estimates process that fosters a culture of compliance with the fiscal strategy and budget targets.

Recommendations

- 5.1.1 Remove the efficiency dividend exemption from grants and property management expenses across the forward estimates.
- 5.1.2 Abolish the efficiency dividend discount.
- 5.1.3 Review the wages indexation factor as part of the development of a new wages policy.
- 5.1.4 Replace the special demand parameter for hospital and primary health services with a population based indexation factor applied equally across the health department and networks.

To restrain expenditure growth to the required level it is important that agency budgets are set in a clear and transparent manner.

The current budget forward estimates model would benefit from a review of the indexation and efficiency dividend factors in terms of both quantum and scope. In particular:

- the Territory Government should require the same culture of continuous productivity improvement from both the NTPS and its service delivery partners (that is, recurrent grants and contracts should not be exempt from the efficiency dividend)
- the number of miscellaneous exemptions from the efficiency dividend should be rationalised, in particular, there is limited justification to exclude property management expenditure in the current economic environment
- the efficiency dividend discount for frontline agencies should be removed to drive productivity improvements across the NTPS more broadly and in recognition that these agencies account for the bulk of the Territory's expenditure
- the wages indexation parameter should be reviewed, as part of the development of a new wages policy, with a view to better aligning public sector wages growth with private sector outcomes and wages policy settings in other jurisdictions
- the special demand parameter for hospital and primary health services should be reduced, particularly in the current environment of limited population growth, to better align the budget to the expenditure trajectory under scenario 2.

Adjustments to the budget forward estimates model are relatively straightforward, however, the resultant budget reductions will require a range of policy decisions to enable agencies to alter expenditure accordingly.

Recommendations

- 5.1.5 Publish 10-year budget and forward estimates key fiscal aggregate information in Budget Paper No. 2.
- 5.1.6 Publish five-year agency output information in Budget Paper No. 3.

To improve the transparency of the Territory's financial position, and in recognition of the timeframe for budget repair, future budget papers should include financial information regarding agency budgets and key whole of government fiscal aggregates beyond that currently published.

The current five-year whole of government key fiscal aggregates summary reporting in Budget Paper No. 2 (comprising the current year, the budget year and three forward years) should be extended to 10 years to align with the medium-term approach to budget repair.

Similarly, the current two-year agency output budget summary reporting in Budget Paper No. 3 (comprising the current year and the budget year) should be extended to five years to clearly illustrate the approved expenditure trajectory for each agency.

The proposed changes to the budget papers will enable government to clearly detail its medium-term whole of government fiscal targets, and agency expenditure trajectories over the forward estimates period, providing a more comprehensive baseline against which performance can be measured.

Recommendation

- 5.1.7 Strengthen the processes and level of ministerial and executive accountability for agency financial performance.

Ensuring agencies operate within their approved budget is fundamental to successfully returning the budget to balance at the whole of government level.

To increase the level of accountability for agency financial performance it is important that there are clearly defined and understood repercussions for the key influencers of agency financial performance including ministers and chief executives (for larger agencies this should also include senior executives). This will require the role of the Budget Review Subcommittee of Cabinet to be strengthened.

Initial repercussions for non-compliance with budget could include:

- lifting the agency's delegation levels for employment and procurement matters (potentially to the Under Treasurer)
- adjusting reporting lines to include a requirement for the agency's chief financial officer to report to the Under Treasurer
- quarterly reporting by the relevant minister to the Budget Review Subcommittee on the financial performance of the agency with a particular focus on achieving savings targets

- formal notice from the Chief Minister, Treasurer and relevant minister to the chief executive on the importance of meeting budget targets, including savings targets
- inclusion of financial targets in chief executive annual performance plans, including agreed sanctions for non-compliance
- commissioning independent expenditure reduction plans with the terms of reference to be determined by the Budget Review Subcommittee and the remuneration and ongoing employment of relevant executives tied to the successful implementation of the plans.

In the event of repeat non-compliance, the Chief Minister will need to consider harsher measures to send a clear message that budget discipline is paramount to achieving the Territory Government's fiscal objectives.

Recommendation

- 5.1.8 Establish a parliamentary committee to scrutinise agencies' actual financial performance against the original budget.

The current budget estimates committee process, while appropriate for review of forward projections, prevents contemporaneous analysis of actual performance in the current financial year compared to the original budget.

To better hold the key influencers of agency financial performance to account, an additional parliamentary committee should be established, focused on scrutinising actual financial performance against the original budget and, where relevant, reviewing performance against agencies' approved plans to return to budget. Government owned corporations should also be included in the process.

The committee chair should be an independent position (for example, the Speaker of the House) and the committee should have the opportunity to directly question departmental officers, similar to the Commonwealth Senate Estimates process.

Recommendations

- 5.1.9 Legislate a debt ceiling.
- 5.1.10 Strengthen the accountable officer requirements in the *Financial Management Act* to limit the ability of accountable officers to commit money for expenditure in excess of the approved budget and develop a Treasurer's Direction clearly outlining the sanctions for accountable officers for non-compliance with the Act.

Sustainably managing the Territory's debt and net debt to revenue ratio is a key focus of the Territory's fiscal strategy and the driver of the need to return the budget to balance. To further increase accountability for financial performance, the Territory should legislate a limit on the level of debt it can incur (that is, a debt ceiling).

The debt limit should be supported by strengthening the accountable officer requirements in the *Financial Management Act* to limit the ability of accountable officers to commit money for expenditure beyond the approved budget.

A Treasurer's Direction, clearly outlining the range of sanctions for accountable officers for non-compliance with the *Financial Management Act*, should also be developed. The sanctions should be broadly consistent with those proposed at recommendation 5.1.7.

Goal 2: Financial management

A whole of government financial management framework that supports the efficient allocation of resources to achieve the Territory Government's priorities and promotes a culture of fiscal responsibility.

Recommendation

- 5.2.1 Review the Financial Management and Accountability Framework and associated legislation, policies and procedures to ensure best practice.

A best practice financial management and accountability framework will support improved financial management, accountability, governance, performance, sustainability, and financial practices for agencies.

The Department of Treasury and Finance is currently reviewing the overarching financial management framework, with a particular focus on contemporising the Treasurer's Directions. However, it would be timely to expand the scope of the review to ensure that the Territory's financial management framework is supported by contemporary best practice legislation, policies and procedures more broadly.

Recommendations

- 5.2.2 Introduce bilateral meetings with the Budget Review Subcommittee prior to and during the development of Budget Cabinet submissions.
- 5.2.3 Require the OCPE to provide advice to Cabinet on submissions with staffing implications.

A key difference between the Territory's approach to budget development and that used in other jurisdictions is the lack of bilateral meetings between portfolio ministers and the Treasurer or Budget Review Subcommittee prior to consideration by Budget Cabinet.

The Territory should introduce bilateral meetings as a part of the budget development process both to increase the financial scrutiny applied to submissions and the ability to develop alternative approaches with lower cost options in an informed manner.

The Office of the Commissioner for Public Employment (OCPE) should also be required to provide advice to Cabinet on submissions with staffing implications to improve the rigour around estimated staffing requirements for new initiatives in terms of both quantum and classification of additional employees.

Recommendation

- 5.2.4 Limit supplementary funding submissions outside the budget development process to extraordinary items and, where possible, require the identification of offsetting savings.

To maintain the expenditure trajectory approved during the budget development process, supplementary funding submissions should be limited to extraordinary items and should require the identification of offsetting savings as a prerequisite to inclusion of the Budget Review Subcommittee business list (refer to the proposed Charter of Budget Discipline).

Recommendations

- 5.2.5 Develop clear and strict eligibility guidelines to support the assessment of Treasurer's Advance applications to ensure it is used for genuinely unforeseen and unavoidable circumstances.
- 5.2.6 Publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.

The Territory should develop clear and strict eligibility guidelines to support the assessment of applications for Treasurer's Advance funding to ensure it is used for genuinely unforeseen and unavoidable circumstances that are one-off in nature.

To increase transparency, the Territory should also publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.

Recommendations

- 5.2.7 Implement reward/milestone-based budgeting for new initiatives to incentivise the achievement of desired outcomes.
- 5.2.8 Reward agencies that achieve outcomes and spend within their approved budget by allowing them to retain a share of underspends.

To better incentivise the achievement of the Territory Government's intended outcomes, the Territory should introduce milestone/reward payments. This approach could be linked with sunset clauses, whereby new programs are funded on a time-limited basis, with ongoing funding or funding for subsequent implementation stages tied to the successful achievement of pre-defined outcomes.

The Territory should also consider rewarding agencies that achieve outcomes and spend within approved budget by allowing departments to retain a share of underspends. This would reduce the perverse expenditure incentives created under the current 'use-it or lose-it' system.

Goal 3: Workforce sustainability and capability

An industrial relations framework and workforce model that supports a skilled and flexible workforce to effectively and efficiently deliver Government's strategic priorities.

Recommendations

- 5.3.1 Implement a cap on Territory-funded FTE positions for the next three years, with growth in the cap thereafter limited to population growth.
- 5.3.2 Implement an immediate recruitment freeze for agencies currently exceeding their expenditure budget.
- 5.3.3 Incorporate staffing KPIs into chief executive performance agreements.

To return the budget to balance the Territory Government will need to halt the growth in the NTPS. This is particularly important in the next three years, given that any changes in the wages policy will have limited practical effect until 2021-22.

As an interim measure to halt staffing growth, the Territory Government should cap staffing at current levels for three years, in line with the budget targets for no growth over the forward estimates period. For agencies that are currently exceeding their expenditure budget, the cap should be augmented by an immediate recruitment freeze, with the cap reviewed once the agency has returned to budget.

Adherence to the staffing cap should be incorporated into chief executive performance agreements to increase accountability.

Around 17 per cent of NTPS positions are funded, wholly or in part, through external (mainly Commonwealth) funding. These FTE should be excluded from the cap given the budget-neutral nature of these positions. This will require improved data capture and monitoring by agencies and OCPE.

Recommendations

- 5.3.4 Review ECO levels and their associated remuneration structures.
- 5.3.5 Implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review (recommendation 5.3.4 refers).
- 5.3.6 Convert existing ECO1 positions to SAO2/SP2 positions as soon as practicable.

There are clear opportunities to reduce the number of ECOs and associated costs. In particular, the OCPE should undertake a review of all ECO levels and their associated remuneration structure with a focus on:

- the construction of the salary package given the industrial entitlements considered in the early 1990s may no longer be relevant
- the make-up of executive contract officer structures in agencies
- the entry point of the executive officer stream.

An anomaly in the NTPS is the relationship between the SAO2/SP2 and ECO1 classifications, which have the same work value for substantially different rates of pay. The Territory Government should convert all existing ECO1 positions to SAO2/SP2 positions as soon as practicable. This could effectively halve the number of executive contract officers in the NTPS.

Further reductions could be achieved if the approach was extended to executive contract managers (ECMs) in government owned corporations (these positions have similar remuneration to ECO1 positions).

The Territory Government should also implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review (refer to recommendation 5.3.4).

Recommendations

- 5.3.7 Develop a new wages policy based on a \$1000 per annum wage increase, including a wage freeze for executives and parliamentarians.
- 5.3.8 Rationalise awards, harmonise conditions and review entitlements across the NTPS.
- 5.3.9 Explicitly prohibit backpay or equivalent sign-on payments under the new wages policy to encourage timely bargaining resolution.

A gap between public and private sector wages has emerged in the Territory. Private businesses and non-government organisations are finding it difficult to compete with the more generous wages and entitlements offered in the NTPS, particularly in the current economic climate. Many of these entitlements date back to self-government in 1978 and would not exist under a contemporary remuneration structure.

NTPS enterprise agreements have a high level of complexity, with over 970 different allowances currently being paid to NTPS employees. This has significant downstream impacts on human resource and payroll efficiency and ICT system requirements.

The majority of NTPS enterprise agreements are locked in for the next three years. Nonetheless, restraining public sector wages growth could contribute significantly to budget repair over the medium term and lessen the need to reduce staff numbers. It would also ease the burden placed on Territory businesses to compete with the public sector's more generous wages and conditions.

The Territory Government should implement a new wages policy, expressed as a cap in dollar terms at \$1000 per annum, including a wage freeze for executives and parliamentarians.

The new wages policy should be supported by a review of NTPS entitlements, with the aim of harmonisation and simplification to drive operational and processing efficiencies.

Importantly, the new wages policy should contain provisions preventing the payment of backpay or equivalent sign-on payments, which significantly reduce the incentive to expeditiously resolve enterprise agreement negotiations.

Recommendation

- 5.3.10 Expand the current PSEMA review to include assessment of the contemporaneity and efficiency of the broader NTPS employment framework including options to reduce duplication through consolidation of tribunals and legislation.

The *Public Sector Employment and Management Act* (PSEMA) establishes the main framework for managing the NTPS with its subordinate legislation providing additional detail.

The OCPE should expand the remit of its current PSEMA review to include a focus on simplifying and streamlining legislation and policies and improving operational and processing productivity. The review should also include options to reduce duplication through consolidation of tribunals and legislation (for example, assessing the merits of maintaining a separate employment Act for police).

The terms of reference for the expanded review should be determined by the Budget Review Subcommittee.

Recommendation

- 5.3.11 Move industrial relations to the Treasurer's portfolio and merge the Wages Subcommittee with the Budget Review Subcommittee.

To improve the financial, economic and regulatory scrutiny applied to enterprise agreement negotiations and the development of wages policy more broadly, responsibility for industrial relations should be moved to the Treasurer's portfolio and the Wages Subcommittee of Cabinet should be subsumed by the Budget Review Subcommittee.

Recommendations

- 5.3.12 Establish a whole of government strategic workforce board.
- 5.3.13 Develop a comprehensive training program to address concerns about the hollowing out of policy, administrative and technical capability across the NTPS.

The Territory Government should establish a whole of government strategic workforce board to better identify capability gaps and enable evaluation of the effectiveness and efficiency of training and development investment across government.

The board should also oversee the development of standardised workforce reporting across government and targeted workforce strategies, including the development of a comprehensive training program for relevant NTPS employees to improve policy, administrative and technical capability (for example, project management and procurement skills).

Recommendation

- 5.3.14 Introduce a Job Family model for corporate roles common across agencies.

The NTPS has a range of corporate functions common to all agencies (for example, human resources and finance). The roles and responsibilities for these functions are not standardised, which inhibits efficient recruitment, training and retention strategies and prevents effective centralised data analysis and workforce planning. To address this issue, the Territory Government should adopt a Job Family model for corporate roles common across agencies.

Job families is an employment classification model that uses clear and consistent role and skill requirements within common functional areas to enable standardised employment assessment and evaluation and to aid job mobility. The model is used to varying degrees by a number of jurisdictions including the Australian Public Service.

Introducing job families would provide a consistent structure within agencies for these functions enabling like-for-like comparisons and benchmarking across government and potentially delivering workforce efficiencies through the use of standardised job descriptions and specifications.

Goal 4. Organisational efficiency and strategic alignment

Resources are utilised efficiently and effectively to deliver the Territory Government's strategic priorities and promote a single enterprise mindset within the NTPS.

Recommendations

- 5.4.1 Implement the next phase of shared services reform by further centralising corporate services in the Department of Corporate and Information Services.
- 5.4.2 Further centralise infrastructure planning, management and delivery into the Department of Infrastructure, Planning and Logistics, including repairs and maintenance budgets.

The Territory Government is largely organised under a portfolio and departmental structure. A number of common corporate transactional services, such as payroll processing, accounts payable and accounts receivable are provided centrally by the Department of Corporate and Information Services under a whole of government shared services arrangement that has operated for over 20 years.

Given the Territory's issue with small scale, it is imperative and feasible that the NTPS adopts an efficient single enterprise approach to service delivery, rather than duplicating functions in a siloed manner under rigid departmental structures.

While pockets of efficiency have developed across the NTPS through hub and spoke models for corporate services, a significant level of unnecessary duplication remains due to the tendency of individual agencies to have standalone corporate structures. The ensuing lack of coordination and standardisation of processes, policies, reporting and ICT systems across government further hampers the efficient delivery of government services.

Similar issues exist in infrastructure management, where a number of agencies have standalone infrastructure teams that duplicate some functions provided by the Territory's infrastructure department. Additionally, repairs and maintenance budgets are managed at the individual agency level, while minor new works and capital works are generally managed centrally.

The Territory Government should progress the next phase of centralisation of corporate and infrastructure functions through a five-stage process (aggregate, reorganise, standardise, innovate and automate, and generate efficiencies). While financial services are not proposed to be further centralised as part of this reform, consideration should be given to ensuring chief financial officers are integrated into agencies' executive leadership structures to support a sustained focus on budget repair and disciplined financial management.

These reforms have the potential to significantly improve efficiency across government. However, they will require steadfast commitment from ministers and chief executives and rigorous project management.

Recommendation

5.4.3 Restructure agencies to consolidate similar/related functions and reduce duplication.

There are pockets of functional overlap across agencies, particularly regarding economic and industry development. To address this issue, the Territory should restructure agencies to consolidate similar/related functions and reduce duplication. In particular, consideration should be given to consolidating economic and industry development functions within a Department of Industry, which would be responsible for:

- making the Territory a globally competitive investment destination
- boosting productivity and innovation in primary industries
- increasing jobs through fostering economic development (urban and remote)
- supporting small business.

This reform would complement recommendation 2.3.

Recommendations

5.4.4 Implement a rolling program of organisational reviews.

5.4.5 The annual schedule of reviews should be determined by the Budget Review Subcommittee as part of the budget development process.

New initiatives and policy changes typically only account for a small fraction of total expenditure in each budget, leaving up to 99 per cent of government spending unscrutinised outside of any internal agency reviews. As a result, almost all expenditure is simply rolled over from one year to the next with little external assessment of effectiveness, efficiency, and alignment to government priorities.

To ensure agency expenditure is aligned to government priorities and that services are being provided efficiently, the Territory Government should implement a rolling program of organisational reviews. This approach, in various formats, is common in other jurisdictions.

The annual schedule of organisational reviews should be determined by the Budget Review Subcommittee as part of the budget development process, with review outcomes presented to Cabinet for consideration.

Recommendations

5.4.6 Work with the Commonwealth and local government to improve remote service delivery coordination.

5.4.7 Develop a centralised whole of government remote travel hub.

Territory Government agencies and their service delivery partners (for example, Commonwealth, local government bodies and community organisations) are not sufficiently coordinated in delivering services, particularly in remote communities, resulting in duplication and inefficiency.

The Territory Government should work with the Commonwealth and local government to improve the coordination of remote services to reduce duplication and fragmented community engagement and service delivery.

Remote travel (particularly medical staff and patient travel) is an area ripe for efficiency improvement. For example there is limited coordination occurring between medical outreach services, medical retrievals (Care Flight and St John Ambulance) and the Patient Assistance Travel Scheme despite overlapping patients and communities.

The Territory Government should implement a centralised whole of government hub for remote travel, including patient travel, to improve logistical coordination and service delivery in remote communities.

Goal 5. Evidence-based decision-making

A whole of government program and regulatory evaluation framework that drives a culture of continuous improvement across the NTPS and supports evidence-based policy making and investment decisions.

Recommendations

5.5.1 Develop a whole of government program evaluation framework.

5.5.2 Update the Cabinet submission template to include program evaluation requirements.

5.5.3 Develop an annual schedule of evaluation of existing programs for approval by the Budget Review Subcommittee.

5.5.4 Mandate the use of sunset clauses in new programs.

5.5.5 Foster the development of behavioural economics capability across the NTPS with a focus on adopting proven approaches from other jurisdictions.

The Territory needs a robust whole of government program evaluation framework to support consistent and regular assessment of agency activities to determine their effectiveness and efficiency. Updating the Cabinet submission template to include an evaluation section for new programs will support this reform.

A rolling schedule of evaluation of existing programs should be developed to ensure that evaluation is not limited to new programs. Additionally, new programs should be subject to sunset clauses with the decision for ongoing funding informed by an independent evaluation against predefined key performance indicators and milestones.

The Territory should also build capacity in behavioural economics, which seeks to put human behaviour at the centre of policy and program design, across the NTPS to increase the effectiveness of policy making and achieve better bang for buck.

Recommendations

- 5.5.6 Develop a process to ensure new and existing business-related regulations are actively maintained and improved through a regulatory stewardship model.
- 5.5.7 Update the Cabinet submission template to include regulation evaluation requirements.
- 5.5.8 Develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty.
- 5.5.9 Publicly report actual performance against approved regulatory decision-making process timeframes through annual reports and budget papers.
- 5.5.10 Mandate the use of sunset clauses in new regulations that affect the cost of doing business in the Territory.

To progress a comprehensive, balanced and accountable regulatory reform agenda to make the Territory a globally competitive destination for investment, the Territory Government should adopt a regulatory stewardship approach, which enables regular evaluation of the Territory's existing stock of business-related regulation.

Territory Government agencies should be directed to develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty. Performance against these timeframes should be publicly reported through annual reports and budget papers.

The Cabinet submission template should be updated to include an evaluation section for new business-related regulation and the use of sunset clauses should be mandated to support the stewardship approach.

Recommendation

- 5.5.11 Implement the Northern Territory Project Development Framework (NTPDF) via Treasurer's Direction to ensure a structured approach to capital project development.

The Territory needs a more robust approach to the upfront analysis of government facilitated and funded capital projects. Evidence-based business cases with adequate analysis are needed to support informed decision-making regarding the prioritisation of public funds and achieving value for money for Territorians.

The Northern Territory Project Development Framework (NTPDF), included in the Northern Territory Infrastructure Strategy, provides a structured, whole-of-life approach for projects. This should be operationalised across government as soon as practicable via Treasurer's Direction.

Recommendation

5.5.12 Work with the Commonwealth to secure increased capital investment to address the Territory's infrastructure deficit.

Increasing the level of Commonwealth capital investment in the Territory will be an important element in addressing the Territory's infrastructure deficit in a fiscally sustainable manner.

The Territory Government should continue to work with the Commonwealth to secure co-investment in remote housing, premised on the Commonwealth's 80/20 approach to roads funding, in recognition of the significant housing deficit in the Territory's remote communities.

The Territory Government should also continue to work with the Commonwealth on ensuring national infrastructure funding pools have sufficient flexibility. In particular, it is critical the Territory can access funding for projects with broader economic and social objectives that do not necessarily comply with traditional project-based economic assessments, which favour larger, densely populated urban environments where uplifts in land and amenity value are significant and readily quantifiable.

It is critical that any additional Commonwealth investment to address the Territory's infrastructure deficit be excluded from the Commonwealth Grants Commission process to avoid offsetting reductions in the Territory's GST revenues.

Goal 6. Digital transformation

The productivity and effectiveness of the NTPS is improved through outcome driven innovation, a digital-first approach, and efficient ICT systems and infrastructure.

Recommendations

5.6.1 Adopt a digital-first mindset in relation to government service delivery.

5.6.2 Develop a digital government transformation plan to identify technologies that could create efficiencies in the delivery of government services across the Territory, such as telehealth/videoconferencing/drones.

Digital transformation offers the Territory Government the opportunity to improve policy effectiveness and enable cheaper and faster service delivery through convenient online transactions.

Providing services to a relatively small, remote and dispersed population is challenging and expensive. The Territory Government should adopt a digital-first mindset to government service delivery to reduce the cost of service provision through smarter use of technology, including:

- online government services
- telehealth
- court videoconferencing
- unmanned aerial vehicles (drones).

There are also opportunities to improve government service delivery efficiency through ICT system enhancements. For example, introducing electronic case briefings for courts in place of the existing manual paper-based approach.

Recommendations

- 5.6.3 Undertake a whole of government ICT system stocktake.
- 5.6.4 Develop and maintain a five-year ICT system roadmap outlining priority projects and major system replacement requirements.
- 5.6.5 Rationalise the number of bespoke/standalone ICT systems across the NTPS.

Developing a new major system or replacement, from initial proposal to implementation, can take around four years (two years for a minor system). To enable appropriate planning from both an ICT and budget perspective, it is important the Territory understands the expected lifecycles of its major ICT systems and has a clear plan regarding replacement from both an ICT and financing perspective.

To inform the development of an ICT system roadmap, the Territory should undertake a whole of government ICT system audit to determine the range of ICT systems actively used across government and their anticipated lifecycles.

The audit should also be used to identify opportunities to replace bespoke systems with commercial off-the-shelf alternatives that can provide similar functionality while achieving efficiencies through economies of scale and/or standardisation.

Recommendation

- 5.6.6 Develop and implement a single integrated budget management system for agencies.

Despite its relatively small size, the Territory Government does not have a single integrated budget management system for agencies that is capable of budgeting at the cost centre level or providing consolidated cashflow information.

Agencies have adopted a range of in-house solutions, including unsophisticated spreadsheet-based approaches, and prepare manual monthly cash flow reports. This approach restricts the ability to centrally monitor real-time financial performance against approved budgets and, in the case of spreadsheet-based approaches, significantly increases the Territory's financial risk.

To address the financial and operational risks and inefficiencies associated with the current approach, the Territory Government should develop and implement a single integrated budget management system for agencies. The system should be centrally managed by the Department of Corporate and Information Services.

Recommendation

- 5.6.7 Develop an automation roadmap for Territory Government service delivery.

Increasing the use of process automation could increase service delivery efficiency, particularly in shared and back-office services such as procurement, finance and transactional human resources processes.

The Territory Government should conduct an opportunity scan to identify automation opportunities and develop an automation roadmap for the NTPS.

Goal 7. Revenue optimisation

A competitive and sustainable own-source revenue base, commercial management of public investments, robust government pricing policies and a fair share of Commonwealth funding.

Recommendations

- 5.7.1 Maintain a competitive taxation environment and revenue raising effort relative to other jurisdictions.
- 5.7.2 Reform gambling taxation arrangements for bookmaker and betting exchange taxes.

Repairing the Territory's budget primarily by raising own-source revenues would damage the Territory's economy. Nonetheless, it is important that the Territory maintains a well balanced taxation environment that balances competitiveness and revenue raising effort in relation to other jurisdictions.

There appears to be some scope to raise additional own-source revenue through reform to bookmaker and betting exchange taxes by way of adjustments to the annual cap and/or tax rate.

Recommendation

- 5.7.3 Increase accountability for the performance of government owned corporations against their statements of corporate intent, including developing clear sanctions for non-compliance.

As a general principle, the Territory's public investments should be providing sustainable returns in the form of dividends and taxes to justify the Territory's ongoing investment (or treatment as a government owned corporation).

Over the past two decades, the Territory's government owned corporations have collectively persistently failed to achieve this objective and have operated at a significant net cost to Territory taxpayers.

Structural separation in 2014 played an important role in arresting the decline in government owned corporation performance, with both Jacana and Power and Water Corporation (PWC) subsequently implementing substantial reform programs that, if successfully delivered, will provide sustainable returns to the Territory Government on its investment over the medium term. Conversely, Territory Generation is expected to continue to impair rather than support the Territory's financial position and requires urgent reform to avoid the need for further significant funding injections.

The Territory Government should develop clear sanctions that will be imposed in the event of non-compliance with each corporation's statement of corporate intent. Ultimately, the shareholding minister will also need to be prepared to undertake harsher measures for repeated non-compliance.

Recommendations

5.7.4 Develop a commercial asset management framework.

5.7.5 Undertake a review of existing commercial assets in accordance with the commercial asset management framework.

In line with other jurisdictions, the Territory Government should develop a commercial asset management framework based on the following design principles:

- service delivery should be at the core of asset management
- asset management should be integrated into relevant government policy and planning frameworks, as well as budget and evaluation processes
- decisions should take into account performance through monitoring and measurement of KPIs, as well as evaluating all options that could address the service delivery needs
- ownership, control, accountability, responsibility and reporting requirements should be clearly established, communicated and implemented
- information management systems should meet all government decision-making and reporting requirements, and asset related risks should be fully integrated into the organisational risk management framework
- asset management activities should be undertaken as part of the government's overall resource allocation and management framework.

Following the development of the commercial asset management framework, the Territory should undertake a review of major commercial assets in accordance with the framework.

Given the need to reduce the Territory's debt levels, it is important that any proceeds from asset disposal remain on the Territory's balance sheet, either through repaying debt or reinvesting in economic enabling infrastructure.

Recommendation

5.7.6 Develop a government services pricing framework.

Most jurisdictions have developed charging or cost recovery guidelines, which are similar to, and in many cases based on, the Commonwealth Government's framework. However, the Territory largely follows a process of ministerial approval without having a central framework providing clear guidelines around how to develop and review charging arrangements.

The Territory Government should develop a pricing framework, using the Commonwealth's existing framework as a general guide. This will assist the Territory to more efficiently manage its assets.

Recommendations

5.7.7 Commission an independent review of areas where Commonwealth expenditure in the Territory is lower than other jurisdictions (for example, Medicare) and where funding is required to close the gap in Aboriginal disadvantage.

5.7.8 Seek relief of debt inherited from the Commonwealth on self-government.

The Territory Government needs to maximise its share of Commonwealth funding. This requires the Territory to identify areas, such as Commonwealth Rental Assistance and Medicare, where the share of funding flowing into the Territory is not commensurate with the Territory's population share or sociodemographic needs and develop strategies to address the shortfalls.

Given the Territory's underlying infrastructure deficit in comparison with other jurisdictions, and the level of public sector superannuation debt inherited at self-government by a small developing economy with a limited own-source revenue base, the Territory should seek relief of outstanding self-government debt from the Commonwealth. This is particularly important given that the distribution of funding under the Commonwealth Grants Commission processes does not take into account the historical backlog in need for capital expenditure in Aboriginal communities, or economic infrastructure across the Territory more broadly, that pre-dated self-government.

Reform implementation and monitoring (Chapter 6)

Recommendation

6.1 Adopt a staged process to budget repair, incorporating phases of reform linked to the annual budget development process.

It is proposed that the budget be returned to balance through a staged process, incorporating phases of reform linked to the annual budget development process as follows:

- completion of the Fiscal Strategy Panel Final Report on Budget Repair (Stage 1 – March 2019)
- the Territory Government's response to the Final Report (Stage 2 – April 2019)
- reform implementation (Stage 3 – 2019 Budget onwards):
 - reform phase 1: 2019 Budget
 - reform phase 2: 2020 Budget
 - reform phase 3: 2021 Budget

The process will work in parallel with the Territory Government's Program Review, which will also feed into the 2019 Budget.

Given the complexities involved with a number of the reforms, work will need to start immediately on developing implementation plans for phase 2 and phase 3 reforms. It is important that the Territory Government maintains the momentum for reform over the next three years, particularly given the long-term benefits associated with a number of the more difficult reforms.

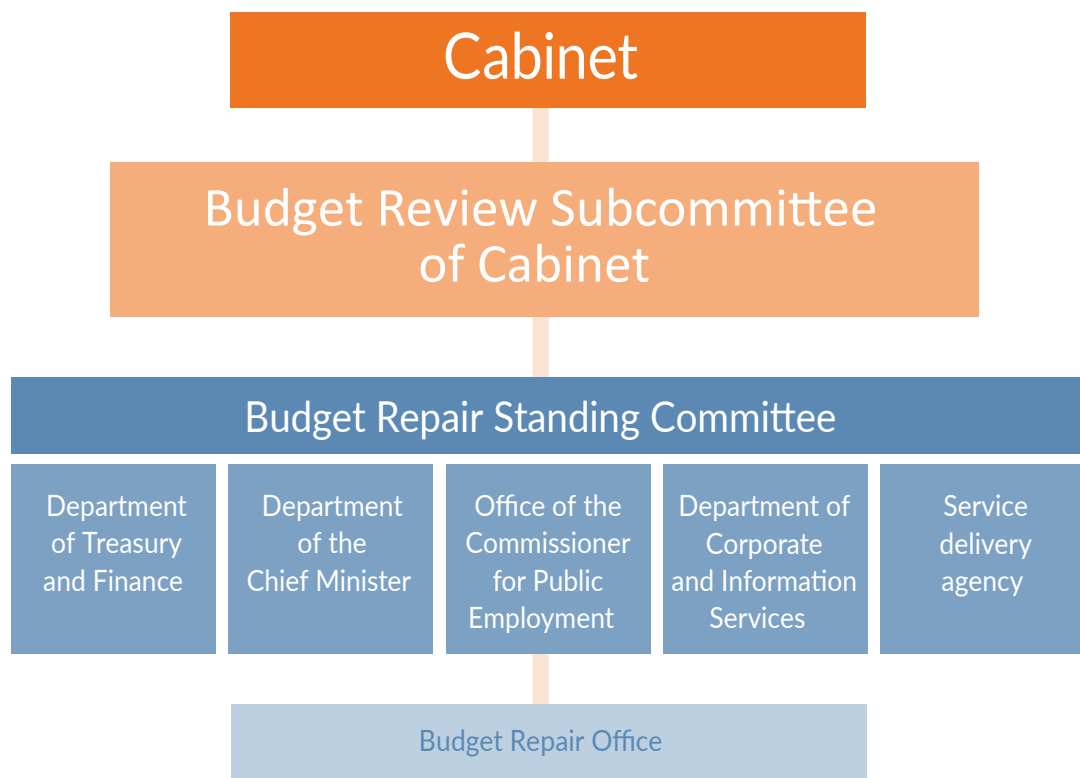
Recommendation

- 6.2 Implement the governance model outlined at Figure i, including the establishment of a Budget Repair Standing Committee and Budget Repair Office.

A strong governance model will need to be set up to report transparently and regularly on the progress of reforms.

It is recommended that the Territory Government establish a Budget Repair Office within the Department of Treasury and Finance to coordinate reform implementation, monitoring and reporting, governed by a Budget Repair Standing Committee (chief executive level) reporting to Budget Review Subcommittee.

Figure i: Governance model for the monitoring and evaluation of budget repair



1 | Interim Report summary and stakeholder engagement

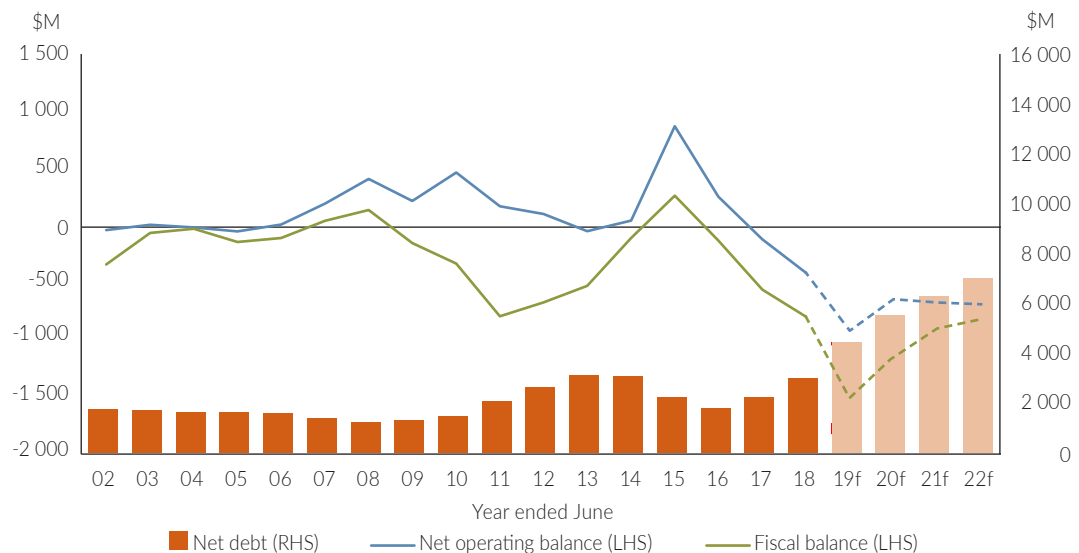
Key points

- The Territory budget is in structural deficit (that is, a fundamental imbalance between receipts and expenditures that is not related to cyclical or short-term factors) following significant reductions in GST revenue and continued growth in expenditure.
- GST is the Territory's primary revenue source, with the Territory having a relatively small own-source revenue base.
- As at the 2018 Mid-Year Report, the Territory's GST revenues are around \$2.4 billion lower than forecast in the 2016 PEFO.
- Reductions in the Territory's per capita relativity have been the main driver of the decline in GST revenue. Other factors, such as slower growth in both the Territory's population and the national GST pool, have made smaller contributions to the decline.
- While the Territory continues to have the highest relativity of any jurisdiction, reflecting its socio-demographic and geographic profile and limited own-source revenues, its relativity is heavily exposed to factors external to the Territory.
- The recent reductions in the Territory's relativity reflect changes in expenditure patterns in larger states rather than improvements in its fiscal capacity or an improvement in the relative cost of providing the national average level of services in the Territory.
- The Territory's share of GST revenue is expected to remain well below its historical average over the medium term.
- To avoid unsustainable growth in net debt and subsequent interest costs, the government, the NTPS, industry and the community must reset their expectations and be prepared to work together to return the budget to balance through restraining expenditure growth.
- As the largest employer in the Territory, the Territory Government will need to balance the pace of fiscal repair with its broader economic objectives.
- In the long run, growing the Territory economy will reduce the Territory Government's reliance on GST revenue. However, given the Territory's small own-source revenue base relative to the size of its fiscal challenges, the Territory cannot grow its way out of the current fiscal predicament in the timeframe required.
- The Interim Report provided the basis for informed stakeholder engagement and community input to assist in the development of the framework for medium-term budget repair outlined in this report.
- Round table discussions were held with stakeholder groups in January and February 2019, with participants and broader community invited to provide formal submissions to inform the final report.
- The actions recommended in this final report are designed to return the budget to surplus over the medium term to minimise the impact on the Territory economy and Territorians.

Summary of Interim Report

Over the past 20 years, the Territory Government has achieved operating surpluses averaging around \$140 million and incurred fiscal deficits averaging around \$240 million per annum (Chart 1). This means that while recurrent activities were sustainably financed over the period, successive Territory governments have used debt to fund infrastructure investment, particularly during contractions in the economic cycle.

Chart 1: Key fiscal aggregates – non financial public sector



Source: Department of Treasury and Finance

GST is the Territory's primary revenue source, with the Territory having a relatively limited own-source revenue base due to the size and composition of the Territory economy in comparison to its service delivery needs. As a result, the Territory's fiscal position is particularly sensitive to changes in GST revenue.

The 2016 PEFO, published in August 2016, forecast fiscal deficits from 2016-17 to 2017-18 and a return to fiscal balance in 2019-20 premised on:

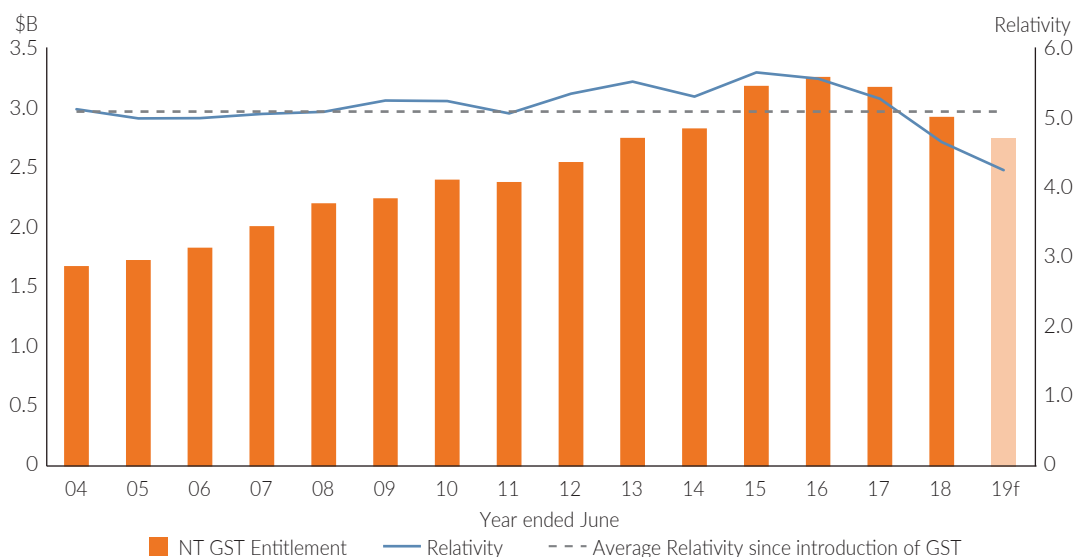
- GST revenue growth of around 3.2 per cent per annum, broadly consistent with its post-global financial crisis (GFC) growth path
- moderating own-source revenues as the local economy adjusted when the Ichthys LNG project transitioned from the construction to the production phase
- expenditure growth averaging around 0.9 per cent per annum, including efficiency dividends of up to 3 per cent.

The Territory's GST relativity in 2016-17 was 5.28. In 2017-18 the relativity fell to 4.66 and in 2018-19 it decreased further to 4.26¹ (Chart 2). These unprecedented reductions in the Territory's share of GST revenue since the 2016 PEFO, totalling \$3.4 billion over the budget cycle to 2021-22, have been the largest factor in altering the Territory's financial position. Together with further expense growth to ameliorate the decline in the economy, and fund demand growth and new policy initiatives, the Territory's finances are

¹ In the Commonwealth Grants Commission's 2019 Update, released in February 2019, the Territory's 2019-20 per capita relativity increased slightly to 4.27 but remained below the 4.54 estimate in Commonwealth's interim response to the Productivity Commission inquiry into horizontal fiscal equalisation published in July 2018.

now in the unsustainable position of needing borrowings to pay for recurrent activities, including interest expenses.

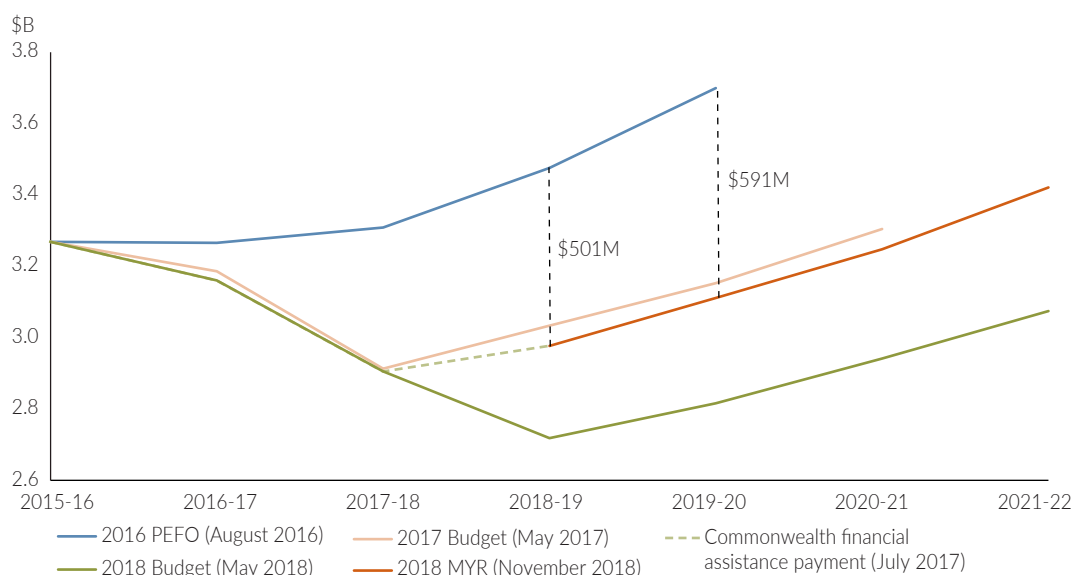
Chart 2: Territory GST revenues and annual relativities



Source: Department of Treasury and Finance

While the GST reductions were somewhat offset by a \$260 million financial assistance payment from the Commonwealth for 2018-19, with a further Commonwealth guarantee regarding the Territory's GST relativity for the following three years², GST revenues remain around \$2.4 billion below that expected at the 2016 PEFO over the six years from 2016-17 to 2021-22 (Chart 3).

Chart 3: GST revenue changes since the 2016 Pre-Election Fiscal Outlook



Source: Department of Treasury and Finance

² In November 2018, the Commonwealth passed the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act*, which provides the Territory with short-term funding to guarantee a minimum GST relativity of 4.66024 between 2019-20 and 2021-22. While the guarantee temporarily reduces the Territory's GST relativity risk until 2021-22, it does not restore the Territory's share of GST revenue to historical levels. There is also a significant risk that the Territory's relativity will remain well below the floor from 2021-22, particularly given the GST distribution system will move away from full equalisation to a form of partial equalisation, as evidenced by the Territory's 2019 Update relativity of 4.27.

The three drivers of the Territory's GST revenue are national GST collections (the GST pool), the Territory's share of the national population and the Territory's per capita GST relativity. The relativity is determined by the Commonwealth Grants Commission on the basis of what it costs the Territory to provide the average level of government services to Territorians, taking into account the Territory's ability to raise its own revenue to pay for these services and relevant tied Commonwealth payments, which further offset service provision costs (that is, receiving additional tied Commonwealth funding can reduce the Territory's GST revenue in certain circumstances).

GST revenue – key facts

GST revenue = national GST pool x share of the national population x per capita relativity

- The 2016 PEFO forecast the national pool to grow at an average rate of 5.54 per cent per annum over the forward estimates. Growth was subsequently revised down to 4.83 per cent per annum in the 2018 Mid-Year Report, resulting in a reduction of \$309 million in GST revenue to the Territory over the period.
- The 2016 PEFO forecast the Territory's share of the national population to average around 1.01 per cent per annum over the forward estimates. The Territory's share was subsequently revised down to 0.96 per cent per annum in the 2018 Mid-Year Report following weak growth in the Territory and strong growth in other jurisdictions. This has reduced the Territory's GST by around \$622 million over the period.
- The 2016 PEFO forecast the Territory's relativity to average 5.12 over the forward estimates. Subsequent events reduced these forecasts to 4.26 in the 2018 Mid-Year Report, reducing the Territory's GST by around \$2.414 billion over the period. The size of this reduction is unprecedented.
- As at the 2018 Mid-Year Report, the cumulative impact of the above changes was a reduction in the Territory's GST revenue estimates of \$3.4 billion in comparison to the 2016 PEFO forecasts. This has been reduced to \$2.4 billion through financial assistance payments and special measures (a relativity floor).
- GST relativities are designed to enable each state and territory to provide the national average level of government services, taking into consideration their population and geographic characteristics, ability to raise own-source revenues and contributions from the Commonwealth Government. They are **not** designed to close the gap between Aboriginal and non-Aboriginal disadvantage.
- The Commonwealth Grants Commission, an independent statutory authority, calculates the relativities for each state and territory on an annual basis.
- The Territory has the highest relativity of any jurisdiction because:
 - it costs more to deliver services in the Territory due to isolation, remoteness and sparseness
 - Territorians, on average, are higher users of government services due to the low socio-economic status of many Territorians, particularly in remote communities
 - the Territory has a below average ability to generate own-source revenues to offset the cost of service provision due to the Territory's relatively small and narrow economic base.

- The GST relativities are a zero sum game. Any increase in one jurisdiction's relativity is offset by declines in others. Key drivers of the decline in the Territory's GST relativity since the 2016 PEFO are:
 - Expenditure patterns in the larger states, which drive the calculation of average policy, have shifted towards urban activities (for example, urban transport investment), where the Territory has below average need and away from remote activities (for example, rural and local roads) where the Territory has above average needs.
 - Expenditure on utility subsidies in the larger states has declined. As the relativities reflect average policy, the Territory is also assumed to need less GST for this purpose.
 - There has been a decline nationally in outer regional and remote use of community health services and an increase in non-state sector service provision (that is, GPs). The Territory's use patterns are assumed to match these trends.
 - The larger states have reduced the spending differential between remote and urban schools. This implies a lower remoteness factor, which impacts the Territory as it has a higher than average proportion of remote schools. Slower growth in Aboriginal enrolments in the Territory, compared to the national average, has also reduced the Territory's share³.
 - A decline in the own-source revenue raising capacity of other states (for example, Western Australia – following the end of the commodities boom).

The Commonwealth's response to the 2018 Productivity Commission Inquiry into Horizontal Fiscal Equalisation further eroded the Territory's relativity through a move from full equalisation to a form of partial equalisation that will in essence redistribute GST away from states and territories that have relatively higher service delivery costs (for example, the Territory), below-average revenue-raising capacities or both. While the review also recommended a relativity floor, which the Commonwealth has subsequently enacted for a fixed period, the end result is that the Territory's underlying relativity is expected to remain well below the floor (which itself is substantially below the Territory's historical average relativity), entrenching a lower share of GST revenue for the foreseeable future.

On the expenditure side, recurrent outlays increased by an average of 5 per cent per annum during the construction phase of the Ichthys LNG project (2011-12 to 2017-18) but were budgeted to reduce to 0.9 per cent per annum, including efficiency dividends of up to 3 per cent, in the 2016 PEFO. In practice, agencies have not been able to achieve the efficiencies and productivity improvements required to meet the expenditure trajectory outlined in the 2016 PEFO, meaning the recurrent expenditure growth that occurred during relatively prosperous economic times has become embedded.

³ In the 2011 and 2016 censuses, the number of persons identifying as Aboriginal increased at a faster pace than could be explained through natural increase (births less deaths). This resulted in a reduction in the Territory's share of the national Aboriginal population and impacted the Territory's relativity. The Commonwealth Grants Commission subsequently identified improvements to its method for assessing the impact of the Aboriginal population on the cost and use of government services by better capturing differences in the socio-economic status of that population within similar remoteness areas. This has partially offset the impact on the Territory's relativity.

Table 1 summarises the movements in the fiscal balance between the 2016 PEFO and the 2018 Mid-Year Report categorised into policy and non-policy changes. Policy variations are the result of government decisions to implement new, or expand existing, agency programs and is net of savings measures. Non-policy variations are the result of influences outside the government's control, such as the timing of receipts from the Commonwealth and changes in GST and own-source revenues.

Around 60 per cent of variations since the 2016 PEFO (around \$2.6 billion) are non-policy changes, mostly the reduction in GST revenue. The remaining 40 per cent (around \$1.7 billion) relate to policy changes, mainly comprising economic stimulus measures, the Royal Commission into the Detention and Protection of Children in the Northern Territory response, alcohol reforms, demand pressures and additional funding to offset agency budget overspends.

Table 1: Movements in the fiscal balance

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
2016 PEFO	- 876	- 431	- 154	1	n/a	n/a	n/a
2018 Mid-Year Report	- 548	- 790	- 1 513	- 1 122	- 871	- 789	n/a
Difference	328	- 359	- 1 359	- 1 123	n/a	n/a	n/a
Non-policy change	341	91	- 763	- 733	- 769	- 765	2 597
Policy change	- 13	- 450	- 595	- 390	- 165	- 127	1 740

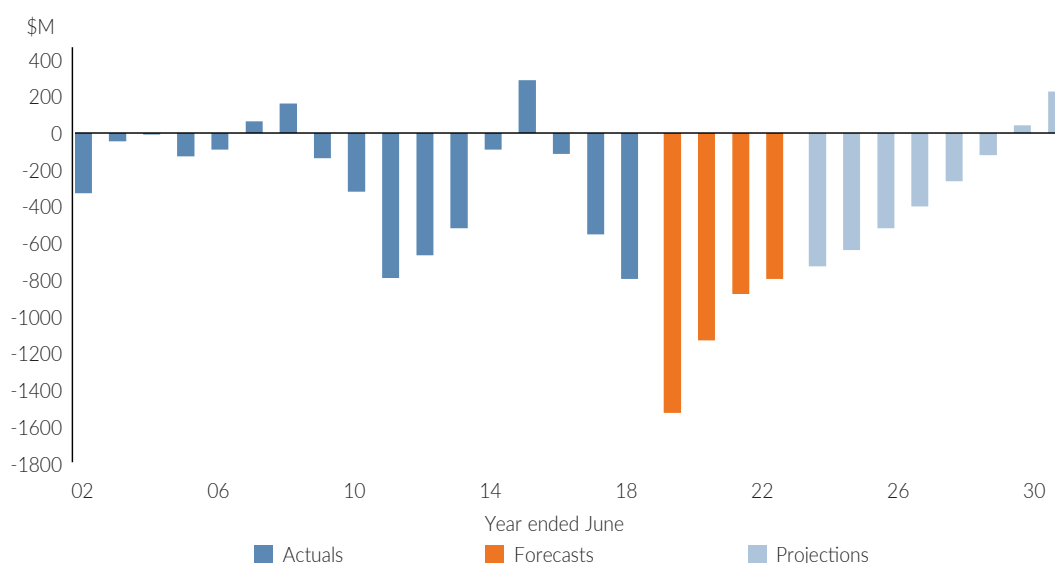
Note: The 2016 PEFO forward estimate period ceased in 2019-20. Non-policy and policy change calculations beyond this period reflect the aggregate variations over subsequent budgets.

Source: Department of Treasury and Finance

As a result of these revenue and expenditure trends, the Territory budget is in structural deficit meaning that there is a fundamental imbalance between receipts and expenditures that is not related to one-off or short-term factors.

The scale of the financial challenges facing the Territory mean that a business as usual approach (scenario 1 in the Interim Report) is not an option as net debt would rapidly escalate to unsustainable levels. However, a fiscal surplus could be achieved by 2028-29 (scenario 2 in the Interim Report) by operating within the parameters of the 2018 Mid-Year Report and restraining expenditure growth over the projection period (2022-23 to 2029-30) to around 3 per cent per annum (reflecting CPI plus long-term population growth less a reform dividend) through structural reforms to the NTPS.

Chart 4: Non-financial public sector fiscal balance – scenario 2



Source: Department of Treasury and Finance

In the long run, growing the Territory economy will reduce the Territory's reliance on Commonwealth funding. However, given its relatively small own-source revenue base, the Territory cannot grow its way out of the current fiscal predicament in the timeframe required. As the largest employer in the Territory, the Territory Government will also need to balance the pace of fiscal repair with its broader economic objectives to ensure economic stability and support investor and consumer confidence.

In summary, the government, the public service, industry and the community must reset their expectations and be prepared to work together to return the budget to balance. A new fiscal strategy will be needed, supported by different approaches to spending decisions, a modern NTPS with greater accountability and improvements in the way government operates so it can live within its means. The actions recommended in this report are designed to return the budget to surplus over the medium term to minimise the impact on the Territory economy and Territorians.

Stakeholder engagement and consultation

The Interim Report provided the basis for informed stakeholder engagement and community input to assist in the development of the framework for medium-term budget repair outlined in this report.

Stakeholders were provided with the opportunity to contribute through a variety of channels including discussions with the panel, written submissions, the Department of Treasury and Finance website and the Territory Government's 'Have Your Say' website.

Engagement process

Following the release of the Interim Report in December 2018, the Fiscal Strategy Panel undertook stakeholder engagement with peak bodies, industry groups, unions and key government agencies.

Round table discussions were held with 23 stakeholders in January and February 2019, with participants also invited to provide a formal submission to help inform the

recommendations of the final report. Submissions were also invited from the broader community through the Have Your Say website (haveyoursay.nt.gov.au) and the fiscal strategy email address FiscalStrategy.DTF@nt.gov.au.

A list of stakeholder groups engaged is provided at Table 2.

Table 2: Stakeholder engagement

Number	Stakeholder group
1	Arid Lands Environment Centre
2	Australian Nurses and Midwifery Federation
3	Bespoke Territory
4	Central Land Council
5	Chamber of Commerce Northern Territory
6	Civil Contractors Federation Northern Territory
7	Community and Public Sector Union
8	Darwin Major Business Group
9	Environment Centre NT
10	Honourable Warren Snowdon MP, Member for Lingiari
11	Hospitality NT (formerly Australian Hotels Association NT)
12	Law Society Northern Territory
13	Local Government Association of the Northern Territory
14	Master Builders Association of Northern Territory
15	Minerals Council of Australia
16	Mr Syd Stirling – Former Member of the Legislative Assembly and former Treasurer
17	NT Council of Social Service
18	Property Council of Australia
19	Tabcorp
20	Team NT
21	Tourism Top End
22	Unions NT
23	United Voice

Source: Department of Treasury and Finance

The panel received 16 written submissions and 96 submissions through the Have Your Say, Northern Territory Budget Repair website. The panel also met with a number of senior executives from Territory Government agencies.

What we heard

A diverse range of views were expressed throughout the consultation process, however, several key themes emerged including:

- the economy is struggling, particularly in the Greater Darwin region, with conditions the worst many have seen
- confidence in an economic recovery in the short term is low as there is little in the way of new projects or industries ready to commence
- businesses are closing and supply chains are weakening
- attracting private investment is crucial to generating jobs, population growth and economic activity, rather than continuing government stimulus, which is not sustainable
- an 'economy first' approach to economic management is needed
- now is the time for a bold new approach to fiscal and economic management that encourages new business development and new jobs in the private and not-for-profit sectors
- a new economic policy must have clear deliverables and robust implementation, and be supported by a pro-active industry policy
- red, green and beige tape (both in place and proposed) is creating uncertainty, which is deterring private investment
- the Territory is developing a reputation for being a place that is process rather than outcomes focused and where it takes too long to do business
- there has been a loss of technical expertise/experience/overall capability across government in relation to regulatory approvals leading to unnecessary project delays
- wages growth in the public sector is not reflective of the external environment where businesses, of necessity, have been more agile in restraining growth or reducing wage costs and employee expenses to maintain workforce capacity and stay afloat
- public sector employment entitlements are generous compared with the local private sector and those interstate, making it difficult for the private and community sectors to compete (a wage gap appears to be emerging between the private and public sectors)
- significant productivity increases across the public service are needed urgently, including better harnessing digital opportunities
- more disciplined fiscal management is required to stem the escalation in debt
- agencies should be reviewing their programs to test whether they are achieving the intended outcomes
- there are some opportunities to increase own-source revenues but these need to be carefully balanced against the potential economic impacts

- there are significant opportunities for greater efficiency and responsiveness in the NTPS, particularly in the delivery and coordination of services in remote communities
- more effective engagement with major Commonwealth programs could generate large fiscal and economic benefits
- Defence expenditure in the Territory, as outlined in the Defence White Paper, needs to be locked in.

The Fiscal Strategy Panel would like to thank the participants and acknowledge the time and dedication given to providing their concerns and recommendations for budget repair. While this report does not necessarily represent the views of all those consulted, it has been informed by invaluable input from individuals and organisations.

2 | The Territory economy

Key points

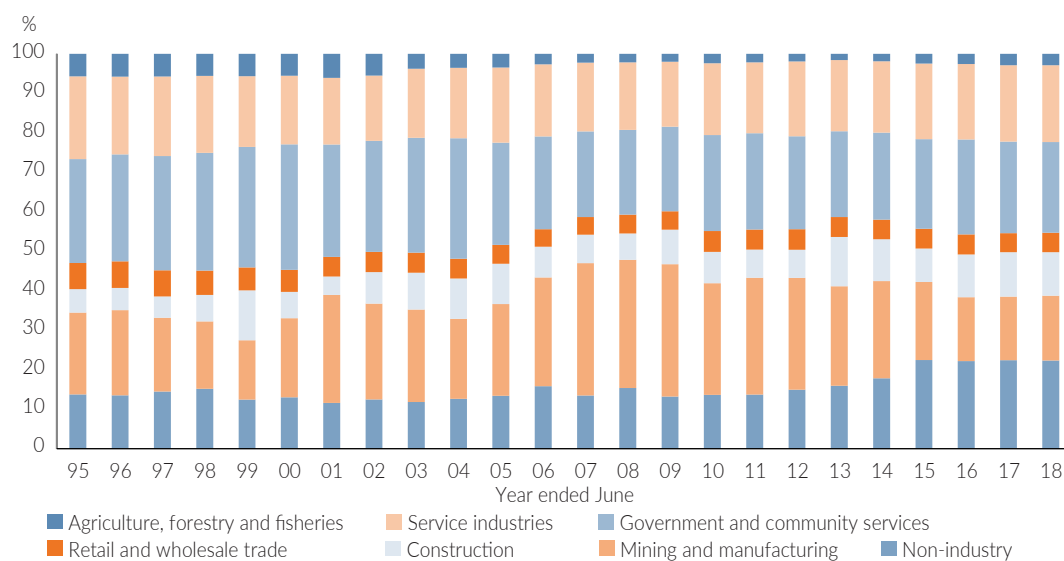
- Budget repair cannot be progressed in isolation of the Territory's economic performance.
- The Territory has a small, developing and relatively volatile economy.
- Private investment, including an ongoing pipeline of major projects, has been the primary driver of the Territory's economic expansion over the past 20 years.
- The lack of significant gaps between major project commencement and completion has meant the Territory has not experienced a lengthy period of subdued economic activity in two decades.
- The Ichthys project, the largest in the Territory's history, is transitioning from the construction phase to the production phase and the substantial economic stimulus effect from the construction phase is now unwinding.
- The Territory Government has undertaken a range of stimulus activities to buffer the impact of the Ichthys transition, however, it does not have the fiscal capacity to fully offset the reduction in private investment.
- Over the medium term, the Territory economy is expected to return to growth, which will assist budget repair through increased own-source revenues and a reduction in stimulus spending. However, the small size of the Territory Government's own-source revenue base relative to the scale of its fiscal challenges means the Territory cannot grow its way out of the problem in the timeframe required.
- Attracting private investment and streamlining major project facilitation is the key to kick-starting an economic recovery in the Territory. While this will not be sufficient to fully offset the significant reduction in GST revenues since the 2016 PEFO, it will increase the pace of budget repair if coupled with restrained expenditure growth.
- It is crucial that the Territory has a robust economic development strategy, supported by industry policy, and an open-for-business attitude in relation to new projects.
- A refresh of the Territory's major project processes as well as microeconomic reform more broadly are key enablers to making the Territory a globally competitive destination for investment capital.
- Existing investment attraction resources should be rebalanced to increase the focus on microeconomic reform to improve the Territory's investment product.

The economy today and how we got here

The Territory is a small and developing economy. It is dominated by the government (including defence) and community services, mining and manufacturing¹, and construction sectors. Collectively, these sectors comprise around 50 per cent of the Territory economy and 55 per cent of employment. The composition of the Territory economy means it is relatively volatile by comparison to other jurisdictions due to the disproportionate impact of individual major projects in the Territory (charts 5 and 6).

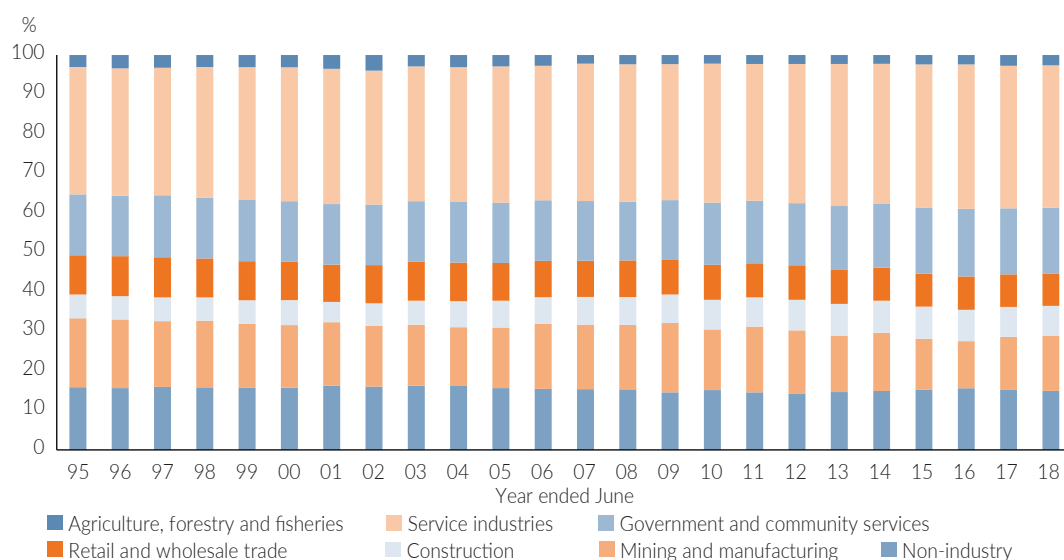
¹ The manufacturing component of the mining and manufacturing sector is relatively small in the Territory.

Chart 5: Territory industry gross value added



Source: ABS, Australian National Accounts: State Accounts, Cat. No. 5220.0

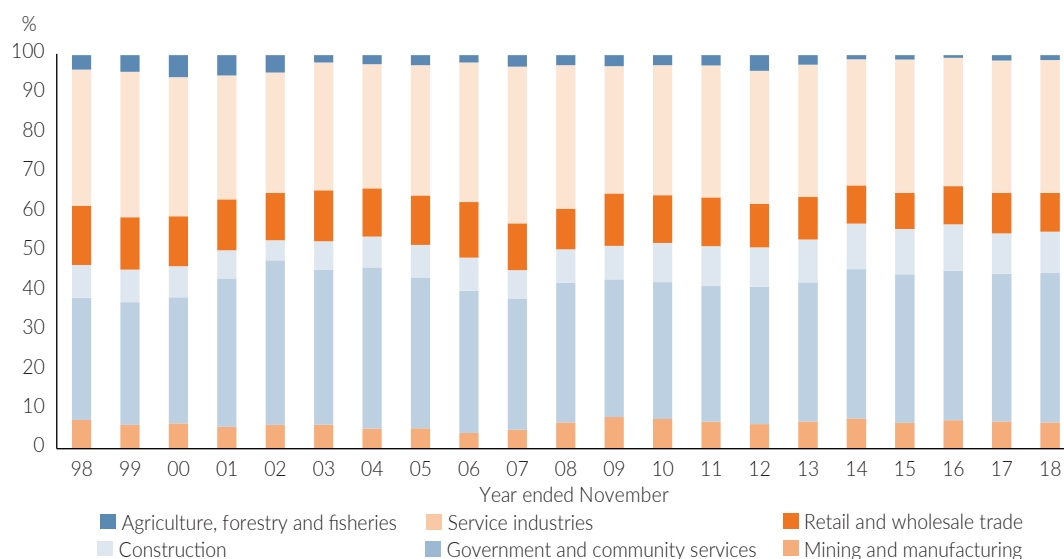
Chart 6: Australian industry gross value added



Source: ABS, Australian National Accounts: State Accounts, Cat. No. 5220.0

While the mining and manufacturing sector generates a significant economic return for the Territory, its contribution to employment is much lower due to the capital-intensive nature of the sector (Chart 7).

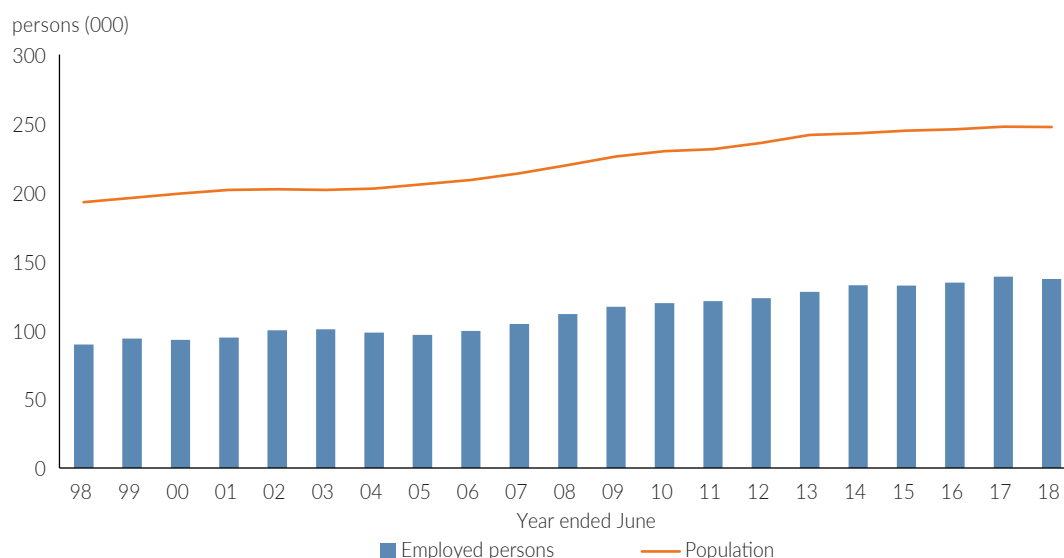
Chart 7: Territory industry share of employment



Source: ABS, Labour Force, Australia Cat. No. 6291.0.55.003

Since 1997-98, the Territory's gross state product (GSP) has grown by over 110 per cent from \$12.3 billion to \$26.2 billion in 2017-18. Population has increased by 28 per cent (54 000) to 247 000 and employment by 53 per cent (48 000 persons) to 137 000 over the same period (Chart 8).

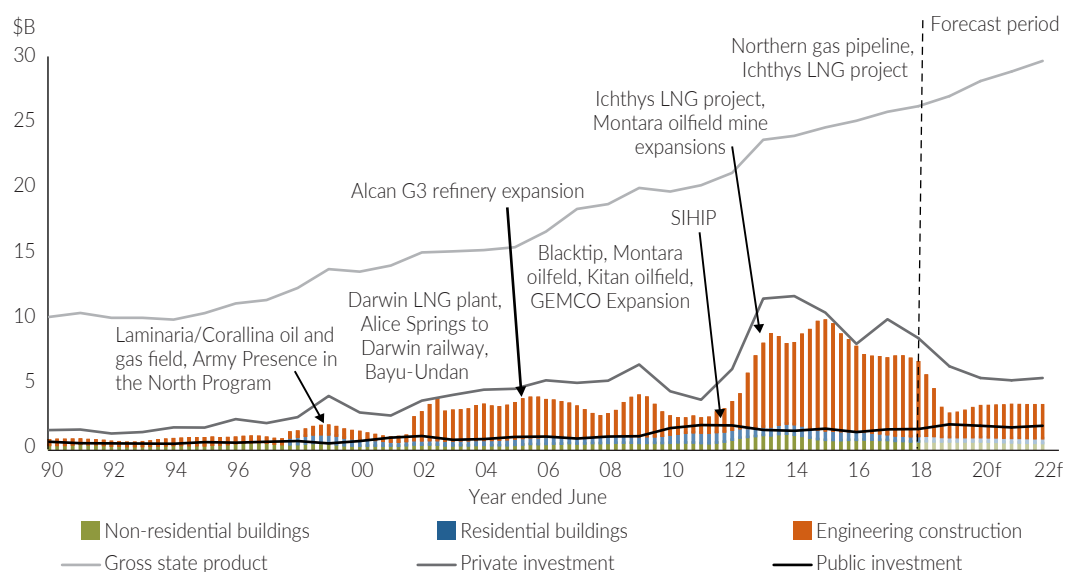
Chart 8: Territory population and employed persons



Source: Australian Demographic Statistics, Cat. No. 3101.0, Labour Force, Australia Cat. No. 6291.0.55.003

An ongoing pipeline of major projects has been the primary driver of the Territory's economic expansion over the past 20 years (Chart 9). The nature of these projects, some occurring simultaneously and others sequentially, has contributed to periods of significant economic volatility for the Territory (perpetuating a boom-bust cycle).

Chart 9: Territory economic growth and construction work done

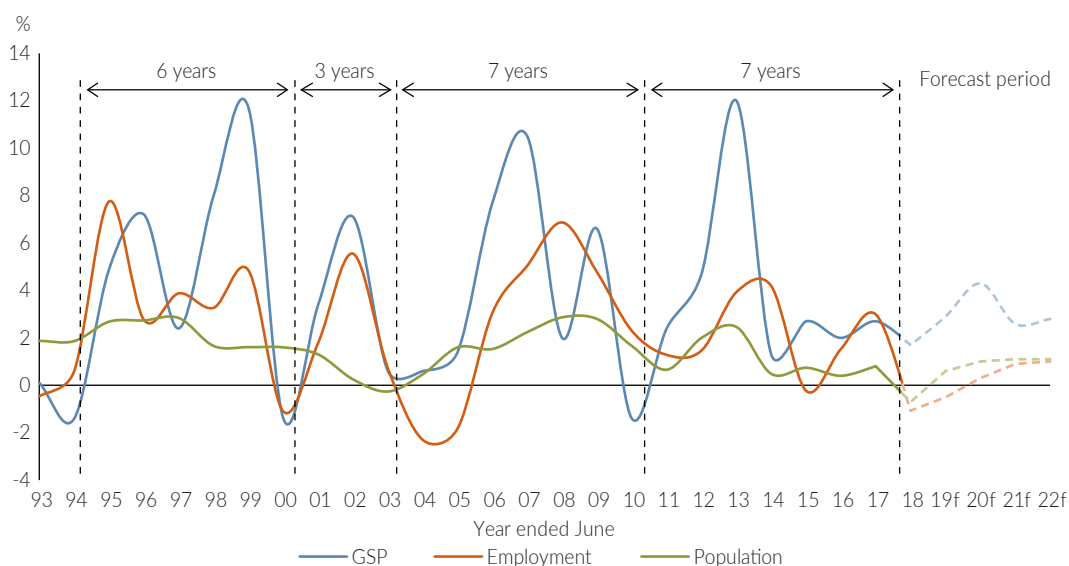


SIHIP: Strategic Indigenous Housing and Infrastructure Program

Source: ABS, Construction Work Done, Australia Cat. No. 8755.0, Department of Treasury and Finance 2018-19 Mid Year Report

A common element of each major project has been the significance and quantum of the private sector investment and commitment to the Territory with respect to employment. There has also been a lack of significant gaps between major project commencement and completion, meaning the Territory has not experienced a lengthy period of subdued economic activity over the past two decades (Chart 10).

Chart 10: Territory economic cycle



Source: ABS, Australian National Accounts: State Accounts, Cat. No. 5220.0, Labour Force, Australia Cat. No. 6291.0.55.003, Australian Demographic Statistics, Cat. No. 3101.0, Consumer Price Index, Australia, Cat. No. 6401.0, Department of Treasury and Finance 2018-19 Mid Year Report

Major projects have a significant impact on levels of business and construction-related investment and business confidence more broadly. Over the seven years from 2011-12, there was an average of \$4 billion per annum of additional private investment associated with major projects in the Territory, equivalent to almost 20 per cent of the total Territory economy. Investment of this scale was unprecedented in the Territory's history and mostly related to the Ichthys project.

The Ichthys project is transitioning from the construction phase to the production phase. While the project will continue to provide a positive economic contribution for the duration of its 40-year operational life of the project, largely through exports of LNG, the very significant economic stimulus effect (construction activity and employment and subsequent multipliers) from the seven-year construction phase, is now unwinding.

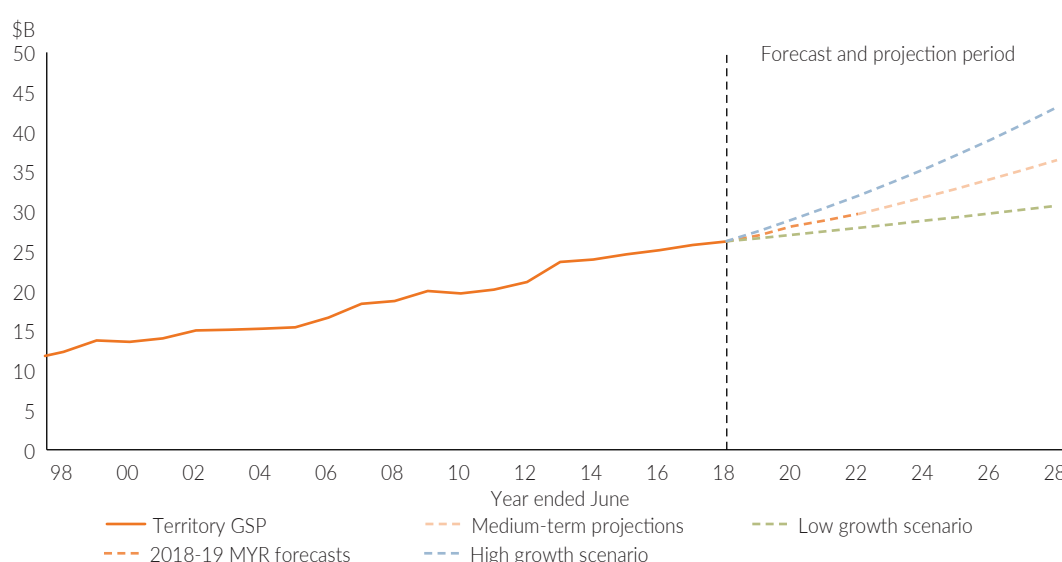
As the Ichthys project's private investment stimulus fades, the Territory economy is being impacted in a number of ways, including a decline in house prices and rents, lower inflation and wages growth, declining employment, reduced retail and construction activity, lower business confidence and falling population growth. While the Territory Government has undertaken a range of stimulus activities, it does not have the fiscal capacity to compensate for the contraction in private investment and therefore the focus will need to be on attracting new private investment to the Territory.

These circumstances are not unique to the Territory. Western Australia experienced similar circumstances when its resource led construction boom ended in 2013-14. Western Australia subsequently experienced five consecutive years of declining domestic demand with significant adjustments across the economy. During the interim report stakeholder engagement process, some participants commented to the panel that the Territory economy will need to adjust in a similar manner.

Medium-term economic forecasts

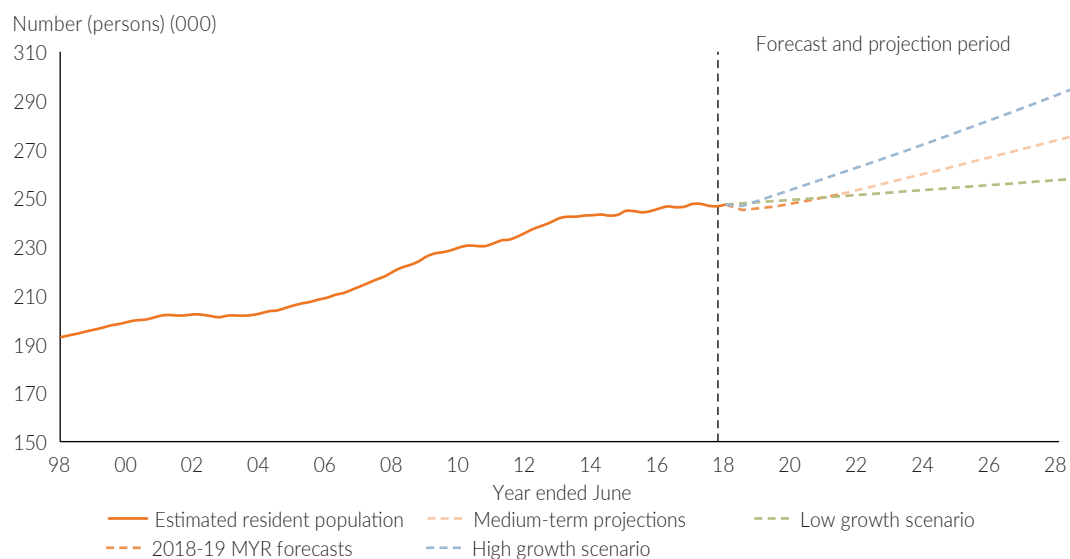
Over the medium term, as the Territory economy re-bases following the completion of the construction phase of the Ichthys project, the Territory economy is expected to return to growth. The Department of Treasury and Finance has prepared a range of scenarios for the Territory's economic, population and employment growth reflecting different policy and macro-economic assumptions (charts 11 to 13).

Chart 11: Territory gross state product



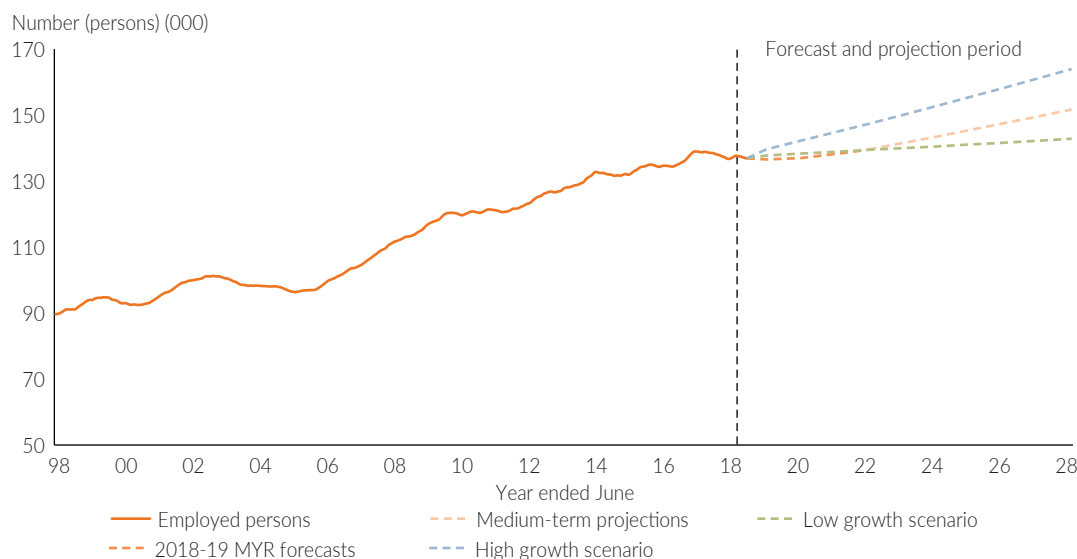
Source: ABS, Australian National Accounts: State Accounts, Cat. No. 5220.0

Chart 12: Territory population



Source: ABS, Australian Demographic Statistics, Cat. No. 3101.0

Chart 13: Employed persons



Source: ABS, Labour Force, Australia Cat. No. 6291.0.55.003

Economic, population and employment growth over the medium term is expected to be underpinned by a range of new projects in the Territory. The mining and petroleum sectors continue to be most prospective, albeit with projects at a smaller scale than the Ichthys project. Tourism and agribusiness also present significant opportunities for new investment. The pace at which new projects materialise will have a large bearing on the duration of the Territory's current economic cycle.

Public projects are also expected to support the Territory economy over the medium term, including the Darwin City Deal, and Kakadu and Defence White Paper investment. These projects are important to ensuring economic and social infrastructure is in place to support a growing economy, however, they can't be seen as substitutes for new private investments that have much larger economic benefits due their greater scale.

Improvements in the Territory economy will assist budget repair both directly (through increased own-source revenues) and indirectly (though a reduction in stimulus spending

pressures). However, given the small size of the Territory Government's own-source revenue base relative to the scale of its fiscal challenges, the Territory cannot grow its way out of the problem in the timeframe required (for example, securing 10 concurrent major projects of a magnitude consistent with the Ichthys project would not increase direct own-source revenues enough to return the Territory budget to balance).

Economic development

The Territory has abundant land space, water and mineral resources and is an export-oriented economy, with an advantageous geographic location in relation to Asia. The Territory is also a major strategic location for defence, which makes a substantial contribution to the Territory economy through direct and indirect employment and demand for local goods and services.

The Territory's advantages are tempered by a number of complexities in regards to achieving its full economic potential and its competitiveness in attracting mobile capital. These complexities include a deficit of enabling infrastructure inherited at self-government, limited exploration and understanding of land and water resources, remoteness and diseconomies of scale, and land tenure issues associated with Native Title and the *Aboriginal Land Rights Act*.

To secure private investment in a globally competitive marketplace it is crucial the Territory has a robust economic development strategy, supported by industry policy, and an open-for-business attitude in relation to new projects.

The Economic Development Framework

To identify actions that would drive economic diversification, the Territory Government held a series of consultations, public forums and summits in 2016-17. The summits discussed the most important directions and actions needed to accelerate the Territory's economic development. More than 240 key organisations and 1590 people contributed. The outcomes of this process were:

- the Economic Development Framework (EDF)
- an Infrastructure Strategy
- a 10-Year Infrastructure Plan.

The EDF includes 105 actions, many involving a partnership between government and the private sector, Traditional Owners, land councils, pastoralists and landholders. The aim is for Territorians to work together to deliver on the actions and commitments in the EDF and propel the Territory's economy forward.

The EDF recognises the Territory's economic development is a partnership between the public, private and not-for-profit sectors, including Aboriginal land owners. The priority focus is on increased private sector investment as a key to grow jobs and support sustainable economic development and diversification. It recognises that the role of government is to support development but growth and jobs must be driven by private sector investment. The Territory Government has undertaken to provide:

- certainty in government and policy

- transparency in relationships and decision-making
- government investment that leverages private sector investment.

Since the release of the EDF in June 2017, partners and stakeholders have been working together to progress the actions and objectives set out in the framework. In October 2018, the Territory Government released a progress report on the EDF², noting that most of the actions were either in progress or complete. The recommendations in this report including a new fiscal strategy, a restructure of the NTPS and an evidence-based approach to policy and investment reinforce the actions in the EDF.

Budget repair and the economy

Budget repair cannot be progressed in a vacuum. Until the Territory economy transitions through a significant structural adjustment post-Ichthys, sections of the business community will continue to lobby the Territory Government to 'take the blows' by undertaking further economic stimulus in an effort to cushion the fall in private investment. While such an approach may provide a temporary reprieve for some industries/businesses, a recovery in private sector investment is the only sustainable and equitable approach.

A recovery in private sector investment will increase own-source revenues for the Territory Government. It will also boost GST revenue through population growth³. While this will not be sufficient to fully offset the significant reduction in GST revenues since the 2016 PEFO, given the Territory's relatively small tax base in comparison to its expenditure needs, it will increase the pace of budget repair if coupled with restrained expenditure growth.

The need to kick-start private investment was widely appreciated during the interim report stakeholder engagement process, with a number of participants stating the Territory needs to recognise that government stimulus is unsustainable and attracting private investment is the key to viable economic growth. The panel agrees with this sentiment and considers that a refresh of the Territory's major project processes as well as microeconomic reform more broadly are the key enablers to increasing private investment in the Territory.

Major projects

The Territory Government supports private investment through a variety of mechanisms including awarding major project status to private sector-initiated and delivered projects that meet specific criteria. The benefits of major project status for project proponents include:

- acknowledging the significance of the project to the Territory
- identifying and mapping project-related government approvals

2 Northern Territory Government, Economic Development Framework Progress Report 1, October 2018, accessed February 2019 (<https://edf.nt.gov.au/the-economic-development-framework/progress-report-1>).

3 GST revenue is based on a per capita formula, with the amount of GST revenue received influenced by the socio-demographic characteristics of the Territory's population. Increasing population growth does not generate a 'profit' in GST revenue, rather reflects the Commonwealth Grants Commission's assessment of what it will cost the Territory to provide the average level of government services to each new Territorian.

- whole of government coordination and facilitation of the project and project-related government approvals
- opportunities to use Territory Government investment attraction activities, which include overseas trade missions, to access markets and potential sources of finance
- a dedicated project case manager appointed as the contact until project delivery.

The Territory Government also works with the private sector to encourage investment through its Market-Led Proposal Policy for projects that require a financial or non-financial contribution from the Territory Government⁴.

During the interim report stakeholder engagement process, a number of participants raised the need for best practice major project approval processes to attract private investment to the Territory. While a thorough examination of the Territory Government's approach to major projects is beyond the remit of the panel's terms of reference, it is clear from stakeholder feedback that reform is required to improve the Territory's attractiveness as a destination for global capital investment.

All project proponents must abide by the Territory Government's policy and regulatory frameworks. Currently, where issues with policy and regulation are identified, they are generally dealt with on an ad hoc basis through project-specific facilitation (for example, award of major project status or appointment of a project lead, etc.) or through specific project legislation (for example, *AustralAsia Railway (Special Provisions) Act* and *North East Gas Interconnector Pipeline (Special Provisions) Act*).

The current approach can be prolonged if agencies and/or ministers fail to prioritise the resources necessary to progress the regulatory and environmental approvals and/or where a process rather than an outcomes driven attitude is adopted. There are a range of options to expedite and improve the efficiency of the current process, including:

1. adopting the Queensland Government's approach to major projects, which uses legislation to establish a statutory position (for example, a Northern Territory Coordinator General) that provides an ability to cut through bureaucratic processes by being able to call-in and override regulatory approval powers under various other pieces of Territory Government legislation
2. establishing a one-stop-shop for declared priority major projects with resourcing able to be mobilised to expedite regulatory approval processes
3. increasing the level of chief executive oversight and accountability of approvals processes to prioritise major project regulatory approval against competing priorities
4. centralising a number of regulatory and investment attraction functions to improve the overall coordination of industry development and support, and reduce beige tape.

The panel considers option 4 offers the most appropriate way forward for the Territory.

⁴ The policy is intended to encourage the private sector to innovate and deliver services, infrastructure and projects that are in the public interest, while maintaining an open, transparent, fair and consistent process that adheres to high standards of probity and public accountability.

While the above options have the potential to foster increased private investment, significant challenges regarding land tenure will remain a barrier to securing private investment for many projects in the absence of reform to Commonwealth legislation⁵.

Microeconomic reform

Microeconomic reform focuses on improving technical, allocative and dynamic efficiency within an economy to raise living standards. It has a medium to long-term supply-side focus, which is distinct from macroeconomic measures that have more of a focus on demand (particularly over the short term).

Microeconomic reform typically means reducing government intervention and often includes a focus on regulatory reform, trade policy, competition policy, market deregulation, land tenure and labour reform. Given the Territory's constitutional limitations, microeconomic reform is largely limited to regulation and taxation (own-source revenues) in the absence of cooperation from the Commonwealth Government on matters such as land tenure.

Regulation and red/green/beige tape are different. The Territory should focus on improving the former in a way that reduces the latter. Effective regulation strikes a balance between protecting the community interest and providing businesses with the freedom to innovate and grow.

Chapter 7 includes a number of reforms aimed at addressing issues with red/green/beige tape in the context of evidenced-based decision-making over the medium term. However, the current challenges facing the Territory economy implore an additional and more immediate response through a whole of government microeconomic reform agenda.

Microeconomic reform can boost the Territory economy through:

- direct changes to the cost of production (for example, taxation, regulation and industrial relations policy)
- opening up the economy to external investment and enhancing competition (for example, developing investment opportunities and competition policy)
- influencing business and community perceptions through changes in policy settings, strategic priorities and the broader institutional environment.

Microeconomic reform successfully drove significant increases in Australian living standards throughout the 1990s through reforming government policies that were imposing unnecessary costs on the economy⁶. A key action in the Territory Government's Economic Development Framework is to progress a comprehensive, balanced and accountable regulatory reform agenda to provide a globally competitive environment to attract private sector investment and sustainable development. The Territory needs to accelerate and expand on this action by developing an ambitious microeconomic reform agenda that is front and centre of the Territory Government's economic strategy.

⁵ A large portion of the Territory is Aboriginal land as determined by the Commonwealth's *Aboriginal Land Rights Act*, with most of the remaining land mass subject to native title rights and interests.

⁶ Productivity Commission, *Microeconomic Reforms and Australian Productivity: Exploring the Links*, 1999, accessed February 2019 (<https://www.pc.gov.au/research/completed/microeconomic-reform/meraap1.pdf>)

This will require a regulatory and policy stocktake, environmental scan and meta-analysis to identify the barriers to private investment in the Territory and impediments to efficient production more broadly. Other jurisdictions, including New South Wales, Queensland and Victoria, are already progressing productivity, competition and efficiency reforms and the Territory cannot afford to be left behind given the highly mobile and competitive nature of capital investment.

Complying with regulations has direct costs for Territory businesses in time and money. The annual cost of regulatory compliance for businesses in the Territory has been conservatively estimated at more than \$280 million for the construction and development sector, \$62 million for the non-government organisation sector and \$22 million for the tourism sector⁷. Similarly, the New South Wales Business Chamber estimates the cost of regulatory compliance for New South Wales businesses is around \$10 billion per annum⁸. Such costs impede potential growth and should be kept to a minimum. There are also direct costs for the Territory Government to administer and manage regulatory compliance and unquantifiable losses from forgone investment, enterprise and innovation.

The Territory's microeconomic reform agenda should go beyond reducing touchpoints with government (that is, tell government once initiatives) or increasing government's online capabilities, and create an overarching microeconomic reform roadmap with the objective of making the Territory a globally competitive capital investment destination. This will require extensive stakeholder engagement, close collaboration and partnerships with the business community, the Commonwealth, local government and land councils.

To support a more co-ordinated approach to attracting private investment to the Territory, it is recommended that the Territory centralise the major projects and microeconomic reform functions within an Office of Investment Attraction. This should also include a rebalancing of existing investment attraction resources to increase the focus on microeconomic reform to improve the Territory's investment product.

Existing investment demand stimulation activities (for example, TeamNT and InvestNT) should also be incorporated into the Office to ensure a holistic approach to investment attraction. This reform should be read in conjunction with recommendation 5.4.3.

Recommendations

- 2.1. Reform the current major projects process to expedite and improve the efficiency of project approvals.
- 2.2. Develop a microeconomic reform roadmap with the key objective of making the Territory a globally competitive capital investment destination.
- 2.3. Consolidate the major projects, microeconomic reform and investment attraction functions into an Office of Investment Attraction.

⁷ Construction and Development Advisory Council, *Unleashing Productivity in the Construction and Development Sector*, 2016, accessed February 2019 (<http://newsroom.nt.gov.au/mediaRelease/21039>) and unpublished data from the Department of Treasury and Finance.

⁸ New South Wales Business Chamber, 2016 Red Tape Survey, accessed February 2019 (<https://www.nswbusinesschamber.com.au/Issues/Business-Surveys/Annual-Red-Tape-Survey>)

3 | New fiscal strategy

Key points

- A fiscal strategy is an essential element of budget planning and accountability, and provides the basis against which policy decisions can be assessed.
- The Territory's current fiscal strategy comprises short and medium-term fiscal targets, with the twin objectives of supporting the economy in the short term and providing a pathway back to a balanced budget and reduced debt levels over the medium term.
- A refreshed fiscal strategy is required following significant, successive and ongoing reductions in the Territory's GST revenue since the 2017 Budget.
- Ensuring the government operates within its means should be the main objective of a new fiscal strategy. The new strategy should also more explicitly reference government owned corporations given their impact on key public sector fiscal targets.
- As the Territory Government is a major contributor to the Territory economy and the single largest employer in the Territory, it is also important the new fiscal strategy takes a balanced approach to budget repair.
- The effectiveness of the new fiscal strategy will be heavily influenced by government's ability to follow the expenditure trajectory approved in the annual budget.
- The Territory has historically demonstrated a propensity towards continuous budgeting, whereby significant levels of expenditure are approved outside the usual budget development process. This has been a key driver of the failure of successive Territory Governments to restrain expenditure growth to original budget targets.
- To improve the integrity of the budget process, and support the new fiscal strategy, it is recommended the Territory Government adopts a Charter of Budget Discipline that would limit funding decisions outside of the annual budget development process.

A fiscal strategy is an essential element of budget planning and accountability, and provides the basis against which policy decisions can be assessed. The *Fiscal Integrity and Transparency Act* (FITA) requires that the Territory Government publish a fiscal strategy, based on the principles of sound fiscal management that among other things:

- specifies government's medium-term fiscal objectives
- explains the broad strategic priorities on which the budget is or will be based
- specifies the key fiscal indicators that government considers important and against which fiscal policy will be set and assessed.

The Treasurer's Annual Financial Report (TAFR) presents the Territory's financial results each year as required by the FITA. The TAFR also satisfies reporting requirements as specified by accounting standards to include explanations of major variances between actual end of year amounts as presented in the financial statements and the corresponding original budget amounts.

The TAFR includes an assessment of outcomes for the financial year compared to the original budget for that year. For example, the 2017-18 TAFR published in November 2018, provides an assessment of the 2017-18 outcome compared to the original 2017-18 Budget (published in May 2017) for government's short-term fiscal objectives.

Additionally, the Legislative Assembly, through the *Financial Management Act* (FMA) and the FITA, requires the Treasurer to account for the government's stewardship of the financial resources made available to it each year through the budget allocations in the *Appropriation Act*.

Current strategy

The Territory's current fiscal strategy comprises short and medium-term fiscal targets, with the twin objectives of supporting the economy in the short term and providing a pathway back to a balanced budget and reduced debt levels over the medium term.

The key principles of the current fiscal strategy, around which the fiscal targets are based, are sustainable service provision, infrastructure for economic and community development, a competitive tax environment, and prudent debt management.

The overall objectives of the current fiscal strategy remain sound, however, the relevance of a number of the fiscal targets has diminished following significant, successive and ongoing reductions in GST revenue since the 2017 Budget¹. The current fiscal strategy principles would also benefit from a refresh to ensure the scope is aligned to fiscal targets at the non-financial public sector².

In summary, a new fiscal strategy and associated decision-making framework is required to address the structural deficit³ created by the revised GST arrangements and increases to approved expenditure targets. The scenario modelling presented in the Interim Report demonstrates it would not be fiscally prudent to continue on a business as usual path in the hope of an unlikely recovery in GST revenues or further untied support from the Commonwealth.

The new fiscal strategy should underpin resource allocation over the medium term (five to 10 years), commencing from the 2019 Budget.

New fiscal strategy

Ensuring the government operates within its means should be the main objective of the new fiscal strategy. However, as a major contributor to the Territory economy and the single largest employer in the Territory, it is also important the government takes a balanced approach to budget repair to maintain investor confidence in the Territory.

The twin objectives of budget repair and economic support are defined in the current fiscal strategy. Given the magnitude of the fiscal challenges facing the Territory, it is recommended that budget repair be identified as the primary objective.

1 Although the GST reductions have been partially offset by a guarantee of untied Commonwealth financial assistance payments until 2020-21, a shortfall of around \$2.4 billion over the forward estimates remains and following the passage of the Commonwealth's *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act* in November 2018, the Territory cannot expect untied funding to be restored to historical levels.

2 Includes the general government sector and public non financial corporations.

3 A structural deficit is generally defined as the amount by which government expenditure exceeds revenue in a particular period, assuming average economic performance. In the Territory, the structural deficit is also heavily influenced by GST relativities, given the Territory's relatively small own-source revenue base.

The key principles of the current fiscal strategy (sustainable service provision, infrastructure for economic and community development, a competitive tax environment, and prudent management of debt and liabilities) remain relevant. The adoption of timeframe-specific fiscal targets against each principle, which provide flexibility to respond to economic and fiscal shocks within an overarching goal of returning the budget to balance, also remains relevant.

Notwithstanding, the new strategy should adopt a more medium to long-term focus in recognition of the level and duration of reform required to return the budget to balance and the FITA's medium to long-term focus. Additionally, it is recommended that the strategy more explicitly reference government owned corporations (Power and Water Corporation, Jacana Energy and Territory Generation) in recognition of their impact on key public sector fiscal targets (for example, the fiscal balance) and to promote the efficient use of Territory Government assets.

An analysis of specific targets under each principle follows. A summary comparison of the current and recommended new fiscal strategy is also provided at Table 3.

Principle 1: Sustainable service provision

The current targets include maintaining an improving operating position over the budget cycle by ensuring growth in general government operating expenses is declining in real terms. However, the inclusion of time-limited external funding (for example, national partnership agreements) can create an artificially low growth rate over the forward estimates. Additionally, the current targets, unlike those in a number of other jurisdictions, do not contain any reference to maintaining a financially sustainable public sector workforce.

To address these shortcomings, it is proposed the new fiscal strategy specify that Territory-funded expense growth be lower than own-source and untied revenue growth in the general government sector over the budget cycle (from the budget year) and Territory-funded NTPS full-time equivalent (FTE) staff be capped at current levels until 2021-22, with growth thereafter not to exceed the Territory's long-term annual population growth (1.4 per cent).

Principle 2: Infrastructure for Economic and Community Development

The current fiscal strategy targets include supporting the economy in the short-term by maintaining general government sector infrastructure investment at least twice the level of depreciation on average over the budget cycle to 2020 and maintaining general government infrastructure spending consistent with depreciation expense over the medium term.

The short-term target expires in 2020 and the medium-term target lacks reference to financing requirements and the need to limit debt-financed projects to those with returns that demonstrably and substantially exceed the investment costs.

To strike an appropriate balance between maintaining public assets and restraining expenditure growth, it is recommended that general government sector infrastructure investment (comprising the capital works program, minor new works program and repairs and maintenance program) be held to no more than the average level of depreciation over the budget cycle and not exceed twice the level of depreciation in any single year.

To limit borrowing to funding economic enabling infrastructure it is also proposed that debt funded infrastructure be restricted to projects with a positive economic return on investment. Ideally such infrastructure should have been identified as part of the Territory's 10-year Infrastructure Strategy⁴.

Principle 3: Competitive tax environment

The current target aims to maintain a competitive tax environment that encourages investment, creates jobs and attracts business to the Territory, while raising sufficient revenue to contribute to funding government's service delivery requirements. While this remains relevant, it is proposed that an additional efficiency target be included to promote the efficient collection of own-source revenue.

Principle 4: Prudent management of debt and liabilities

The current targets aim to achieve an improving fiscal balance in the non-financial public sector over the budget cycle and return the Territory's non-financial public sector net debt to revenue ratio towards the long-term average of 40 per cent.

The 2018 Budget and forward estimates include persistent, though declining, fiscal deficits. Without an increase in untied Commonwealth revenues or extreme expenditure reductions, managing net debt and the net debt to revenue ratio to affordable levels is unachievable over the current budget cycle.

Further, changes to the treatment of leases under new accounting standards (which will impact all jurisdictions) will add up to \$871 million to the Territory's net debt from 2019-20 by removing the current distinction between operating and finance leases. This will result in all contractual lease commitments that are currently reported as an expense being recognised instead as a financial liability on the balance sheet, with a corresponding non-financial asset. While having no material effect on the Territory's net worth (total assets less total liabilities), it is expected to increase the Territory's net debt to revenue ratio by between 9 and 13 percentage points as net debt includes the financial liabilities but not the corresponding non-financial assets. The impact of the changes on the Territory's key fiscal targets should be clearly identified in its financial reporting through presentation of both actual and underlying results.

Given the above issues, it is recommended that the new fiscal strategy adopt a broader target of maintaining or improving the Territory's credit rating (currently Aa2 negative) in the medium term and returning the Territory's non-financial public sector net debt to revenue ratio to be at or below 50 per cent in the longer term.

Principle 5: Commercial management of government owned corporations

The current fiscal strategy does not explicitly reference the Territory's government owned corporations (Power and Water Corporation, Jacana Energy and Territory Generation). However, the performance of these corporations affects a number of key fiscal targets.

To better align the fiscal strategy with key drivers of fiscal performance, and promote the efficient use of Territory Government assets more broadly, it is recommended that the new fiscal strategy include specific reference to government owned corporations. In particular, the new fiscal strategy should target a medium-term transition of all the corporations to a commercial footing to support budget repair through sustainable dividends. This reform also supports recommendation 5.7.3.

⁴ Northern Territory Government, 10-year Infrastructure Plan 2017-2026, accessed February 2019 (<https://dipl.nt.gov.au/publications/10-year-infrastructure-plan-2017>)

Table 3: Current and recommended fiscal strategy principles and targets

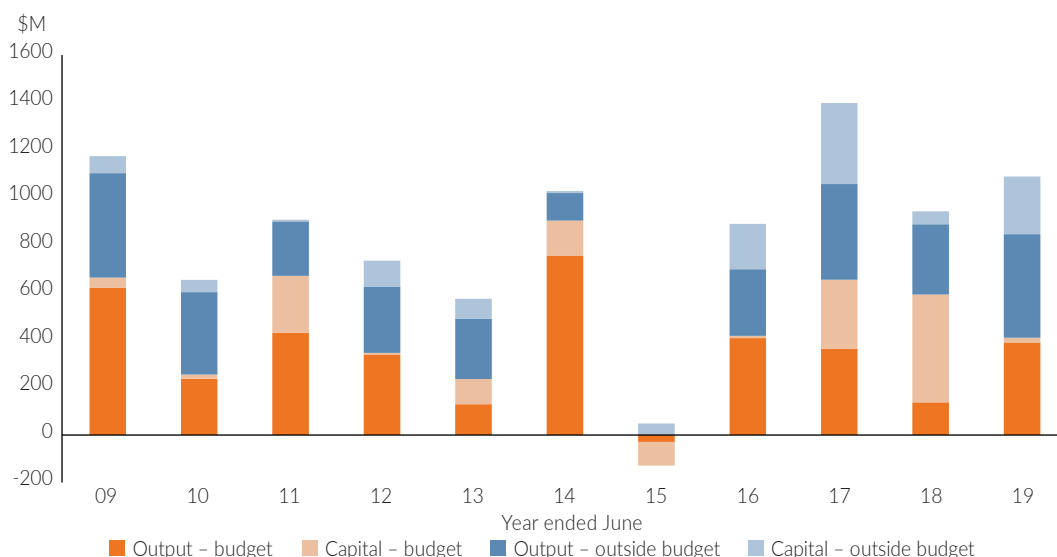
Key principle	Current targets	Recommended targets
Sustainable service provision	<p>Short-term: maintain an improving operating position over the budget cycle by ensuring growth in general government operating expenses is declining in real terms</p> <p>Medium-term: achieve a general government sector net operating surplus that ensures new general government capital investment is funded through revenues rather than borrowings</p>	<p>Territory-funded expense growth to be lower than total own-source and untied revenue growth in the general government sector over the budget cycle from the budget year</p> <p>Maintain a sustainable public service by ensuring annual growth in Territory-funded employee expenses does not exceed the wages policy parameter plus the Territory's long-term annual population growth in any year over the budget and forward estimates period</p> <p>Medium-term: Achieve a net operating balance surplus in the general government sector and maintain an improving net operating balance over the budget cycle</p> <p>Long-term: Ensure new general government capital investment is funded through revenues rather than borrowings</p>
Infrastructure for economic and community development	<p>Short-term: stimulate the economy by maintaining general government sector infrastructure to at least twice the level of depreciation on average over the immediate budget cycle to 2020</p> <p>Medium-term: when the economy returns to long-term trends, maintain general government infrastructure spending consistent with depreciation expense</p>	<p>General government sector infrastructure investment be held to no more than the average level of depreciation over the budget cycle and not allow Territory-funded investment to exceed twice the level of depreciation in any year</p> <p>Long-term: Debt-funded infrastructure be limited to projects with a positive economic return on investment</p>
Competitive tax environment	Maintain a competitive tax environment that encourages investment, creates jobs and attracts business to the Territory, while raising sufficient revenue to contribute to funding government's service delivery requirements	<p>Maintain a competitive tax environment that encourages investment, creates jobs and attracts business to the Territory, while raising sufficient revenue to contribute to funding government's service delivery requirements</p> <p>Collect own-source revenue efficiently</p>
Prudent management of debt and liabilities	<p>Short-term: achieve an improving fiscal balance at the non-financial public sector over the budget cycle</p> <p>Medium to long-term: The Territory's non-financial public sector net debt to revenue as a percentage of revenue is returning towards the long-term average of 40 per cent</p>	<p>Medium-term: Maintain or improve the Territory's credit rating at Aa2 negative</p> <p>Long-term: The Territory's non-financial public sector net debt to revenue ratio at or below 50 per cent</p>
Commercial management of public investments – government owned corporations	Government owned corporations are not explicitly referenced in the current strategy. Performance is managed under the government owned corporations framework through the statement of corporate intent process	<p>Short-term: Ensure operating expenditure growth does not increase at a rate greater than operating revenue growth</p> <p>Adopt commercial operational benchmarks in the Statement of Corporate Intent</p> <p>Debt ratios should improve annually</p> <p>Medium-term: Reduce cost of sales and improve operating efficiencies while maintaining industry appropriate service standards</p> <p>Increase returns for government in the form of dividends</p> <p>Annual review of board and chief executive performance in line with governance policies, processes and Statement of Corporate Intent</p>

Source: Department of Treasury and Finance

Charter of Budget Discipline

The effectiveness of the new fiscal strategy will be heavily influenced by The Territory Government's ability to follow the expenditure trajectory approved in the budget. Chart 14 indicates that the Territory has historically demonstrated a propensity towards continuous budgeting, with significant additional expenditure approved outside the usual budget development process⁵. This has been a key driver of the failure of successive Territory Governments to restrain expenditure growth to the original budget.

Chart 14: Output and capital appropriation – variations by source



Source: Department of Treasury and Finance

To improve the integrity of the budget process, it is recommended the Territory Government adopt a Charter of Budget Discipline that, barring exceptional circumstances, would limit funding decisions to the annual budget development process.

The Charter of Budget Discipline would seek to change the current culture of budget management by:

- framing the annual budget development process around a statement of the Territory Government's strategic priorities for the year ahead from the Chief Minister
- elevating the budget development process so it becomes the single point in the year where Cabinet sets its expenditure priorities
- limiting funding requests outside the budget development process to exceptional circumstances and catastrophic events, including:
 - mandating that all proposals with resource implications be vetted by the Budget Review Subcommittee
 - mandating that any submissions with resourcing implications be required to include offsetting savings

⁵ The chart shows the total variation in output and capital appropriation (i.e. excludes variations attributable to external funding) across the current year, budget year and forward estimates by year of approval. For example, a \$300 million three-year stimulus program approved in the 2015-16 Budget would be shown entirely in the 2015-16 column.

- adhering to circulation timeframes for submissions with resource implications to support rigorous analysis
- requiring that all requests for new expenditure undergo a rigorous and detailed review process prior to consideration by Cabinet
- supporting well-considered policy making through reporting (as key performance indicators in Budget Paper No. 3) the proportion of submissions with resource implications that are:
 - approved for shortened circulation (limiting the time agencies have to analyse the proposal and prepare advice)
 - approved for late lodgement with Cabinet Office (limiting the time ministers have to analyse the proposal).

Recommendations

- 3.1. Retain the twin objectives of the current fiscal strategy but specify that budget repair is the primary objective.
- 3.2. Targets under the fiscal strategy should have a more medium to long-term focus.
- 3.3. Expand the principles and targets of the fiscal strategy to include government owned corporations.
- 3.4. Adopt the new fiscal strategy principles and targets as per Table 3.
- 3.5. Adopt the proposed Charter of Budget Discipline.

4 | Pathway to surplus

Key points

- Implementing austerity measures, such as significant reductions to the NTPS, to achieve immediate budget repair would damage the Territory economy.
- A medium-term approach to budget repair provides a balance between the Territory's fiscal targets and its broader economic objectives.
- Returning the budget to balance sustainably requires the Territory Government to operate within its existing budget over the forward estimates and limit expenditure growth in the medium term to no more than 3 per cent per annum. This will reduce expenditure by around \$11.2 billion in the period to 2028-29 compared to the business as usual scenario.
- Achieving this outcome will require a combination of significant structural reform and prudent budget management.
- Demand increases for services, such as health, will need to be offset by increased productivity or efficiencies across government. Stimulus funding, beyond that already approved, will also need to be offset by savings in other areas.
- This report provides a package of 76 reforms to support the Territory Government to achieve the necessary level of expenditure growth restraint by generating efficiencies through:
 - increasing financial accountability and transparency (goal 1)
 - improving financial management policies and processes (goal 2)
 - reforming the NTPS to deliver a sustainable workforce (goal 3)
 - organising agencies and functions more efficiently and effectively (goal 4)
 - using evidence-based decision-making to drive effectiveness and efficiency (goal 5)
 - digitally transforming the NTPS to drive innovation and reduce costs (goal 6)
 - optimising revenue to support budget repair (goal 7).
- A detailed description of the reforms, including specific recommendations, is provided in Chapter 5.

The Interim Report provided two scenarios for the Territory's fiscal prospects over the medium term. The scenarios used the same GST and own-source revenue assumptions, with the key difference between the scenarios being the rate of expenditure growth.

Scenario 1: Business as usual

Scenario 1 was based on recurrent expenditure growth continuing at historical levels (that is, around 6 per cent per annum) from 2018-19 and capital expenditure continuing at stimulus levels. Scenario 1 demonstrated that, in the absence of immediate and sustained restraint in expenditure growth, the next generation of Territorians will bear the repercussions of business as usual expenditure growth through significantly higher interest costs, projected to approach \$2 billion per annum by 2030.

Scenario 1 is illustrative only and does not reflect the approved budget and forward estimates, which include significant expenditure restraint.

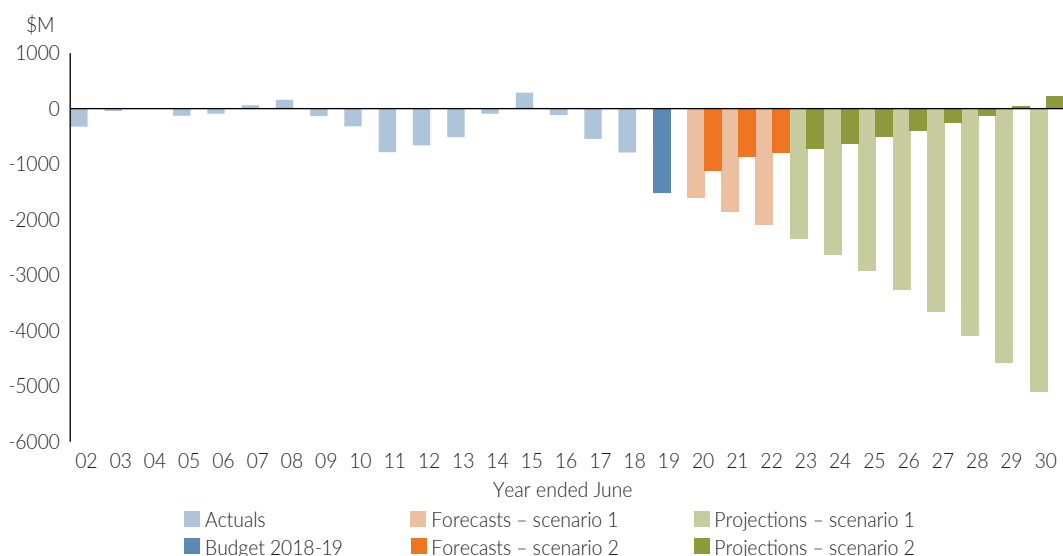
Scenario 2: A new fiscal strategy

Scenario 2 assumed the Territory Government implements a new fiscal strategy as part of the 2019 Budget, which supports agencies to achieve the efficiencies required to manage within the approved budget and forward estimates¹ (2018-19 to 2021-22) and restrain expenditure growth to three per cent per annum over the projection period (2022-23 to 2029-30)². Under this scenario the Territory budget would return to balance in 2028-29.

Scenario 2 demonstrates that the Territory can return the budget to balance over the medium term by restraining expenditure growth and does not have to impose austerity measures that would impact the broader Territory economy.

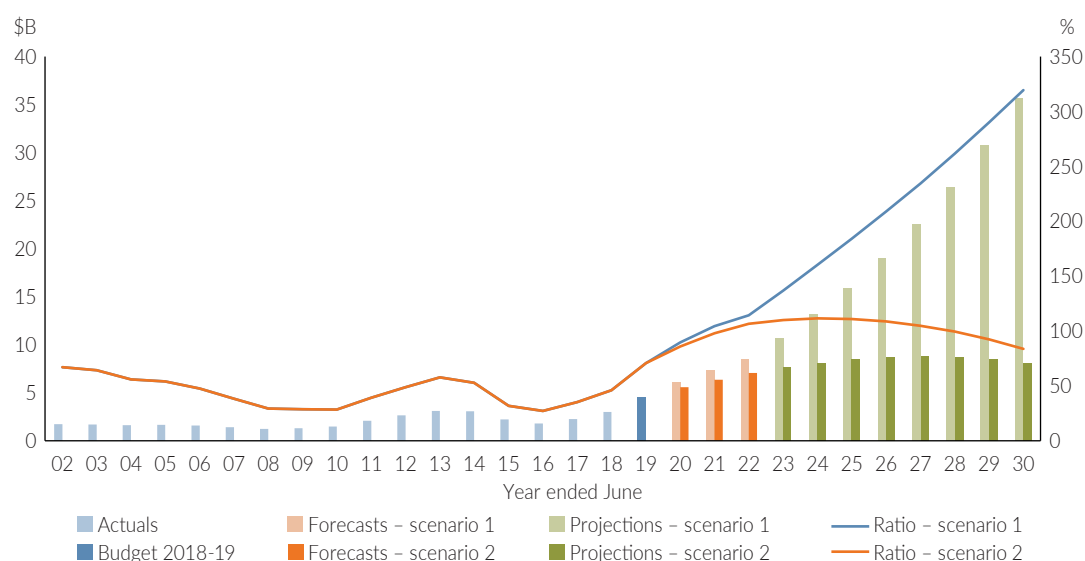
Charts 15 and 16 provide a comparison of the two scenarios.

Chart 15: Non financial public sector fiscal balance



Source: Department of Treasury and Finance

Chart 16: Non financial public sector net debt and net debt to revenue ratio



Source: Department of Treasury and Finance

- 1 As published in the 2018 Mid-Year Report.
- 2 The exception is interest expenses, which are based on projected borrowing requirements assuming a long-term borrowing rate of 5 per cent.

Restraining expenditure growth in line with scenario 2 will require a combination of significant structural reform and prudent budget management to ensure demand increases for services such as health are offset by increased productivity or efficiencies across government. Stimulus funding, beyond that already approved, would also need to be offset by savings in other areas. Proposed savings must be achievable in the same timeframe as the new expenditure programs and must be measurable.

There was a divergence of views regarding the appropriate pace of budget repair during the interim report stakeholder engagement process. A number of business groups urged immediate and deep cuts to the NTPS, while others cautioned against such austerity measures due to their likely impact on the Territory economy.

The Territory has distinctive age-related patterns of interstate migration, with relatively high numbers of young adults moving to the Territory and relatively high numbers of adults in their late 30s and 40s moving away. Young adult in-migrants tend to be single and at the start of their careers (known internationally as 'escalator migrants' who are trying to advance), while slightly older out-migrants are looking to begin or have just begun their own families or are continuing their careers elsewhere³.

If the Territory Government sought more immediate budget repair through reductions in the NTPS, it is likely that a significant number of affected persons would leave the Territory to seek employment elsewhere (particularly given the challenging employment conditions locally). With an average family size in the Territory of around 3.1 persons⁴, it is possible that out-migration from the Territory could be up to 3100 persons for every 1000 NTPS jobs reduced. Job reductions would also impact the economy through reduced consumer spending.

It should be recognised that successfully achieving the current forward estimates targets requires a hitherto unprecedented level of expenditure restraint by government, with most agency budgets experiencing no growth in nominal terms and reductions in real terms. As such, the panel considers that a medium-term approach to budget repair reflects an appropriate balance between the Territory's fiscal targets and its broader economic objectives.

3 Taylor, A. and Carson, D. (2017), *Synthesising Northern Territory Population Research: A report to the Northern Territory Department of the Chief Minister*, Charles Darwin University: Northern Institute, accessed February 2019 (<https://dcm.nt.gov.au/news/2018/march-2018/cdu-population-research>)

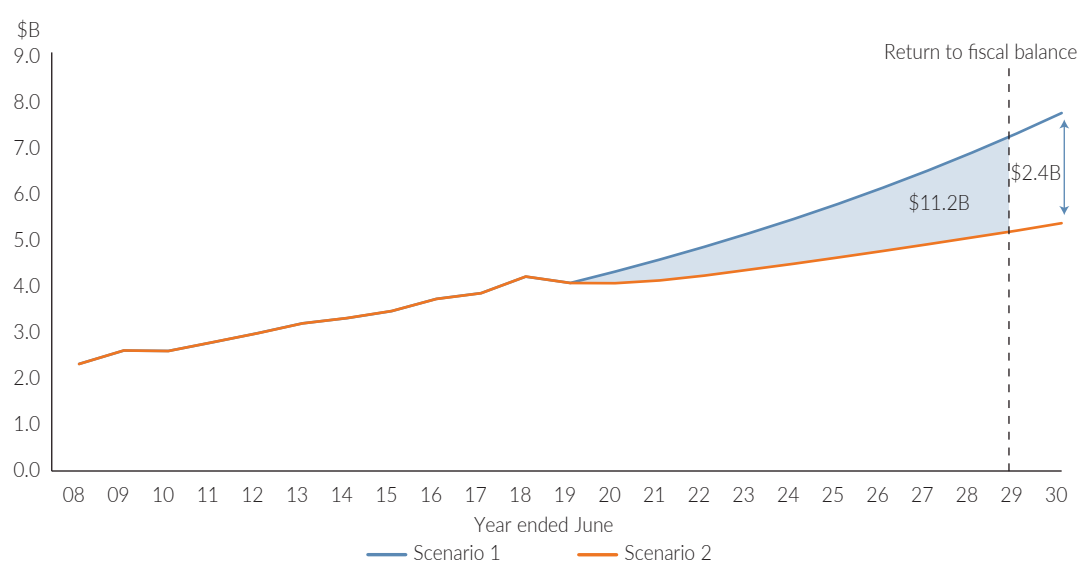
4 Australian Bureau of Statistics, *Northern Territory: Region Data Summary*, accessed February 2019 (http://stat.abs.gov.au/itt/r.jsp?RegionSummary®ion=7&dataset=ABS_REGIONAL_ASGS2016&geoconcept=ASGS_2016&measure=MEASURE&datasetASGS=ABS_REGIONAL_ASGS2016&datasetLGA=ABS_REGIONAL_LGA2017®ionLGA=LGA_2017®ionASGS=ASGS_2016)

What needs to change

Territory Government agencies are funded through appropriation (output appropriation, Commonwealth appropriation and capital appropriation). Output appropriation is the primary source of funding to agencies for their recurrent activities⁵ and therefore will be the focus of budget repair measures⁶. Between 2006-07 and 2017-18, output appropriation grew at an annual average rate of around 6 per cent per annum.

Chart 17 illustrates the historical growth in output appropriation as well as forecasts for each scenario over the forward estimates and projection period. Re-basing the Territory Government's expenditure growth path will reduce output appropriation by around \$11.2 billion over the period to 2028-29 in comparison to a business as usual approach (scenario 1).

Chart 17: Output appropriation over time



Source: Department of Treasury and Finance

The growth in output appropriation between agencies varies significantly, with frontline agencies (particularly the Department of Health) contributing to the bulk of the growth. Table 4 summarises the growth rates in output appropriation by agency over the past 10 years and currently approved output appropriation budgets across the forward estimates.

⁵ Output appropriation covers the cash requirements for agency operating activities. Output appropriation does not include non-cash depreciation expenses as capital investment is reviewed and determined by the government under a separate infrastructure framework.

⁶ Commonwealth appropriation reflects funding received from the Commonwealth for a specific purpose and generally has a neutral impact on the fiscal balance and net debt as the revenue is offset by a corresponding expense.

Table 4: Output appropriation growth by agency

	2007-08 to 2017-18 ¹		2017-18 to 2021-22 ²
	Growth %	WoG ppt ³	Growth %
Department of the Legislative Assembly	3.3	0.4	0.6
Department of the Chief Minister ⁴	18.0	3.7	- 8.7
Northern Territory Electoral Commission	0.4	0.0	- 2.3
Office of the Commissioner for Public Employment	- 0.6	0.0	- 1.3
Auditor-General's Office	0.7	0.0	0.5
Ombudsman's Office	3.9	0.0	0.4
Northern Territory Police, Fire and Emergency Services	5.8	8.1	1.3
Department of Treasury and Finance	- 0.8	- 0.6	- 2.9
Aboriginal Areas Protection Authority	0.7	0.0	0.8
Department of Education	2.6	6.7	1.7
Department of Environment and Natural Resources	4.1	0.8	- 0.3
Department of Local Government, Housing and Community Development	8.0	8.4	- 0.4
Department of Infrastructure, Planning and Logistics	5.5	6.1	- 4.9
Department of Corporate and Information Services	4.5	2.6	4.9
Department of Health ⁵	9.1	33.8	2.7
Department of Trade, Business and Innovation	7.2	4.5	- 6.7
Territory Families	10.2	8.8	3.3
Department of the Attorney-General and Justice	8.9	9.4	- 0.7
Department of Primary Industry and Resources	3.1	0.9	- 1.0
Department of Tourism, Sport and Culture	6.5	6.3	- 8.6
Total	6.4	100.0	0.1

WoG ppt: whole of government percentage point

1 Compound average annual growth in output appropriation between 2007-08 and 2017-18.

2 Compound average annual growth in output appropriation between 2017-18 and 2021-22 as per the 2018 Mid-Year Report.

3 The percentage point contribution of growth in output appropriation for each agency to total growth over the period (for example, the growth in output appropriation for the Department of Health has accounted for 33.8 per cent of the total growth in output appropriation over the period).

4 Growth rates are distorted due to \$27 million funding in 2017-18 for the Royal Commission into the Protection and Detention of Children in the Northern Territory.

5 Includes output appropriation that is on-passed as grants to the health networks.

Note: The historical growth rates in the table have been adjusted to reflect the extensive machinery of government changes made over the period but should be considered indicative estimates due to the complexity of these changes for a number of agencies.

Source: Department of Treasury and Finance

To restrain expenditure growth in line with scenario 2, agencies will need to manage within their approved budgets over the forward estimates period and limit growth over the projection period to 3 per cent per annum. Table 4 highlights that this will require a range of reforms over the forward estimates period, with a number of agencies having to reduce expenditure from current levels in both nominal and real terms. The Territory Government will need to instil a culture of budget discipline across agencies over the medium term to ensure sustained restraint in expenditure growth over the projection period.

Making sustainable change

Reducing the growth in output appropriation from its historical average of around 6 per cent per annum to virtually nil for the next four years and then restraining growth to 3 per cent per annum thereafter is an immense challenge.

Over the forward estimates period, agencies will need to find efficiencies of around \$320 million just to maintain the current workforce given the level of wages growth already locked in under existing enterprise agreements. Further efficiencies will need to be identified to manage growth in core services (for example, health) and implement new initiatives to deliver on the Territory Government's strategic priorities.

Achieving efficiencies of this magnitude will require a level of structural reform well beyond business-as-usual efficiency drives (for example, reducing corporate travel and marketing expenditure). Hence, this report provides a package of reforms to support the Territory Government and agencies to achieve the necessary level of efficiencies through:

1. increasing financial accountability and transparency (goal 1)
2. improving financial management policies and processes (goal 2)
3. reforming the NTPS to deliver a sustainable workforce (goal 3)
4. organising agencies and functions more efficiently and effectively (goal 4)
5. using evidence-based decision-making to drive effectiveness and efficiency (goal 5)
6. digitally transforming the NTPS to drive innovation and reduce costs (goal 6)
7. optimising revenue to support budget repair (goal 7).

A detailed description of the reforms, including specific recommendations, is provided in Chapter 5.

Major challenges

The package of reforms proposed in this report represents the largest structural and cultural change to the NTPS since self-government in 1978 and will require a sustained commitment by all stakeholders and decision-makers to be effective. Fundamentally, agencies must operate within their budget and that budget should be set once per year through a robust budget development process.

Currently, there are three agencies operating well beyond the approved budget (NT Health⁷, Northern Territory Police, Fire and Emergency Services, and the Department of the Attorney-General and Justice). These agencies have developed return-to-budget strategies, which will need to be implemented in addition to the reforms in this report. Failing to address these pressures will add in excess of \$600 million to net debt over the current forward estimates period, with the projected overspend in NT Health alone (mostly driven by the Top End Health Service) larger than the entire budget for the Department of Primary Industry and Resources.

⁷ NT Health comprises the Department of Health, Top End Health Service and Central Australia Health Service.

In addition to returning some of the Territory Government's largest agencies to budget, the Territory is faced with a number of external cost pressures that will need to be managed within the current forward estimates through achieving efficiencies across government. Major pressures include additional funding requirements associated with Commonwealth Government policies (for example, National Disability Insurance Scheme, Quality Schools (Gonski 2.0), City Deals and Kakadu Deal) and pressure from the business community for further stimulus packages (for example, extending Turbocharging Tourism and further rounds of housing stimulus).

5 | Budget repair reforms

To support the new fiscal strategy and Charter of Budget Discipline, it is recommended that the Territory Government introduce a range of structural reforms to restrain expenditure growth across the NTPS. A number of revenue reforms are also recommended, however, the Territory's relatively small economic base and current economic circumstances mean that revenue reforms have a more modest role in returning the budget to balance over the medium term.

Throughout the Interim Report stakeholder engagement process, a broad range of participants identified increasing the efficiency and effectiveness of the NTPS as key to sustainable long-term budget repair. While stakeholder views differed about the pace of budget repair, it was widely recognised that severe and immediate expenditure reductions would harm the Territory economy and there was a general consensus that a medium-term approach should be adopted.

The reforms proposed in this report focus on medium-term budget repair through structural changes to the public service, consistent with scenario 2 in the Interim Report. The reforms have been classified under seven broad themes:

- accountability and transparency
- financial management
- workforce sustainability and capability
- organisational efficiency and strategic alignment
- evidenced-based policy and investment
- digital transformation
- revenue optimisation.

There is no single 'silver bullet' to return the Territory budget to balance. However, the package of 76 interdependent reforms outlined in this report will assist the Territory Government to both restrain expenditure growth over the medium term and create fiscal space to pursue its strategic priorities and improve service quality.

The overarching budget repair framework is outlined at Figure 1. Reform maps, which show the alignment of the goals, reform areas and recommendations are provided at the end of each goal section throughout the chapter. A comprehensive list of recommendations is provided at Attachment B.

Figure 1: Structural reform framework at a glance

WHOLE OF GOVERNMENT			
THEME	Accountability and transparency	Financial management	Workforce sustainability and capability
GOAL	A transparent and accountable budget framework and estimates process that fosters a culture of compliance with the fiscal strategy and budget targets.	A whole of government financial management framework that supports the efficient allocation of resources to achieve the Territory Government's priorities and promotes a culture of compliance and fiscal responsibility.	An industrial relations framework and workforce model that supports a skilled and flexible workforce to effectively and efficiently deliver the Territory Government's strategic priorities.
REFORM AREAS	Setting agency budgets – the forward estimates model	The Financial Management and Accountability Framework	NTPS staffing level and structure
	Budget transparency and accountability	The resource allocation process	Executive staffing
		Agency budgets – incentivising performance	NTPS wages policy
			NTPS employment framework
			Workforce capability and flexibility

STRUCTURAL REFORMS AT A GLANCE

Organisational efficiency and strategic alignment	Evidence-based decision-making	Digital transformation	Revenue optimisation
Resources are utilised efficiently and effectively to deliver government's strategic priorities and promote a single enterprise mindset within the NTPS.	A whole of government program and regulatory evaluation framework that drives a culture of continuous improvement across the NTPS and supports evidence-based decision-making.	The productivity and effectiveness of the NTPS is improved through outcome driven innovation, a digital-first approach, and efficient ICT systems and infrastructure.	A competitive and sustainable own-source revenue base, commercial management of public investments, robust government pricing and a fair share of Commonwealth funding.
An efficient organisational structure	Program evaluation	A digital-first mindset	Own-source revenue
Organisational strategic alignment and efficiency	Regulatory evaluation	ICT planning and efficiency	Management of public investments
Remote service coordination	Capital investment	Budget management systems	Pricing of government services
		Service automation	Commonwealth revenue

Goal 1. Accountability and transparency

Key points

- To restrain expenditure growth to the required level, it is important that agency budgets are set in a clear and transparent manner and that ministers and agencies are accountable for staying within the approved budget.
- The quantum and scope of the indexation and efficiency dividend factors contained in the forward estimates should be reviewed.
- Adjustments to the forward estimates model are relatively straightforward, however, the resultant budget reductions will require a range of policy decisions to enable agencies to alter expenditure accordingly.
- Ensuring agencies operate within their approved budget is critical to successfully returning the budget to balance.
- To increase the level of accountability for agency financial performance, it is important that there are clearly defined and understood repercussions for the key influencers of agency financial performance including chief executives and ministers.
- Further transparency and accountability mechanisms that should be introduced include publishing additional financial information on trends in budget aggregates, introducing a financial performance scrutiny parliamentary committee, legislating a debt ceiling and strengthening accountable officer provisions in the *Financial Management Act*.

Goal

A transparent and accountable budget framework and estimates process that fosters a culture of compliance with the fiscal strategy and budget targets.

Context

The Territory's 2018 Mid-Year Report includes a total operating expenditure budget of \$7.259 billion in 2018-19, increasing at an annual average rate of 0.3 per cent to \$7.320 billion in 2021-22¹. To restrain expenditure growth over the period to the required level it is important that agency budgets are set in a clear and transparent manner and that agencies and ministers are held to account in living within the approved budget.

Setting agency budgets – the forward estimates model

Current situation

Consistent with practices in other jurisdictions, agency budgets are based on a forward estimates model, with the budgets remaining largely unchanged each year, aside from indexation and funding for new initiatives².

1 This includes expenditure related to tied Commonwealth Government funding.

2 The alternative, an annual zero-based budgeting exercise, whereby all expenses require justification each year is not a practical approach at the whole-of-government level and is more suited to specific organisational reviews.

Indexation is applied annually to agency budgets to maintain their purchasing power (for example, to adjust for wage inflation and CPI movements) and an efficiency dividend³ is applied to foster a culture of continuous productivity improvement. The Department of Health also receives a special demand parameter of 4 per cent per annum for hospital and primary health services in recognition of historical trends in service demand in these areas.

Frontline service delivery agencies comprising the Department of Health, Department of Education, Northern Territory Police, Fire and Emergency Services and components of Territory Families and the Department of the Attorney-General and Justice, receive a two-thirds discount on the efficiency dividend in recognition of the difficulties in achieving efficiencies in these services without affecting frontline staffing.

No efficiencies are applied to grants or repairs and maintenance budgets and there is also a range of less material miscellaneous exemptions such as property management expenses, Legislative Assembly member and electorate officer expenses, and judge and magistrate salary expenses.

The indexation parameters are set annually through the budget development process. Adjustments to the parameters and the scope and level of the efficiency dividend have a significant impact on agency budgets. Table 5 illustrates the cumulative impact of a 1 per cent variation in various parameters and changes in efficiency dividend scope over three years.

Table 5: Parameter variation sensitivity (+/-)

	Year 1	Year 2	Year 3
	\$M	\$M	\$M
1% variation in each year in wages policy ¹	26	53	80
1% variation in each year in CPI parameter	10	19	29
1% variation in each year in efficiency dividend	14	29	43
1% efficiency dividend in each year on grants	8	15	23
Remove efficiency dividend discount	24	36	48
Reduce health demand parameter to 1.4% ²	15	30	44

1. The timing of savings is subject to enterprise agreement timeframes.

2. Includes an expansion in parameter scope to cover the whole health budget.

Source: Department of Treasury and Finance

Proposed reforms

Whole of government budget management instruments, such as efficiency dividends, are necessary for short to medium-term fiscal repair and financial discipline. Over time, better information and decision-making frameworks should lead to less reliance on generic whole of government budget management instruments as efficiencies are driven by targeted reforms. Notwithstanding, the current forward estimates model would benefit from a review of the indexation and efficiency dividend factors in terms of both quantum and scope. In particular:

- 3 The efficiency dividend is an annual funding reduction expressed as a percentage of operating expenses through which the government seeks to drive across the board efficiencies in agency operations. In the 2018 Budget, the following efficiency dividends applied: 2 per cent in 2018-19 and 2019-20, reducing to 1 per cent from 2020-21. There are substantial exemptions to the efficiency dividend (for example, repairs and maintenance funding) and a reduced efficiency dividend applies for frontline services.

- the Territory Government should require the same culture of continuous productivity improvement from both the public service and its service delivery partners (that is, recurrent grants and contracts should not be exempt from the efficiency dividend)
- the number of miscellaneous exemptions from the efficiency dividend should be rationalised, in particular, there is limited justification to exclude property management expenditure in the current economic environment
- the efficiency dividend discount for frontline agencies should be removed to drive productivity improvements across the NTPS more broadly and in recognition that these agencies account for the bulk of the Territory Government's expenditure
- the wages indexation parameter should be reviewed, as part of the development of a new wages policy (goal 3 refers), with a view to better aligning NTPS wages growth with private sector outcomes and wages policy settings in other jurisdictions
- the special demand parameter for hospital and primary health services should be reduced, particularly in the current environment of limited population growth, to better align the budget to the expenditure trajectory under scenario 2 (see following boxed information).

Special hospital and primary health demand parameter

The Department of Health is the largest agency in the Territory Government, accounting for around 24 per cent of operating expenditure and 33 per cent of staff. Rising health care costs are a key budget pressure for all jurisdictions.

Following the need for periodic increases in the agency's base budget, including additional funding of around \$42 million in 2012-13, the Territory Government introduced a special 4 per cent per annum demand parameter from 2013-14 for hospital and primary health services. The additional funding was intended to meet the rising demand for health services beyond regular cost indexation and reduce the need for further base budget top ups.

The new parameter replaced the previous special indexation arrangements for the Department of Health, which included an additional 3 per cent indexation on the employee expenses budget and 1.5 per cent on the operational budget, in addition to the usual wages and operational indexation applied to all agency budgets.

When combined with the whole of government cost indexation for wages and CPI, the new arrangements increased the annual indexation for hospital and primary health budgets to around 6 to 7 per cent before taking into account efficiency dividends. However, the parameter has been unsuccessful in mitigating the need for periodic base budget adjustments, with the Department of Health requiring an additional \$60 million in 2017-18.

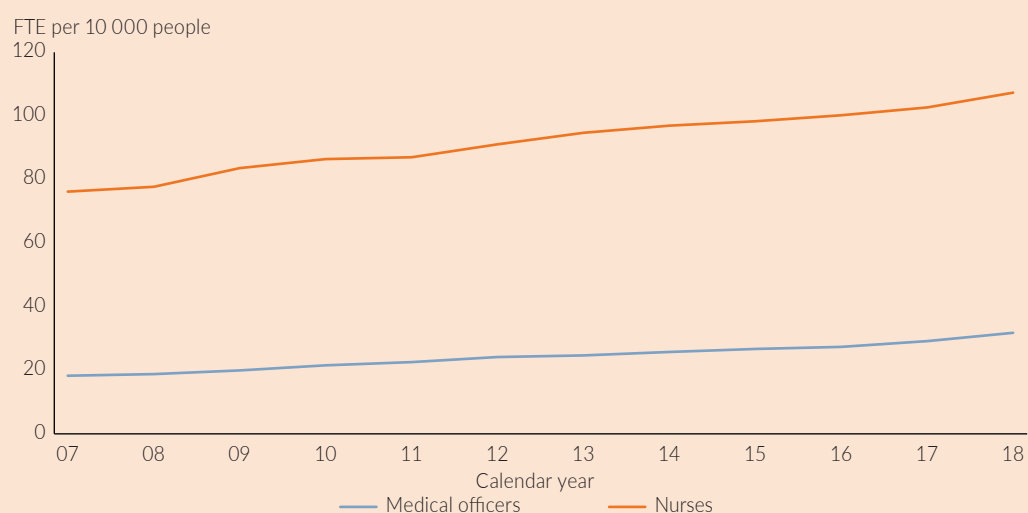
The drivers of health spending can generally be categorised into demographic factors (for example, population growth and ageing) and non-demographic factors (for example, wages growth and technological change)⁴. However, there are significant opportunities for the Territory to improve service delivery efficiency and reduce costs in the health sector as the Territory has well above average costs (even accounting for patient type and remoteness) and the lowest elective surgery waiting times among the jurisdictions⁵.

The Territory also appears to be well behind other jurisdictions in terms of activity-based management, with limited price signals evident throughout the system. The recently opened Palmerston Regional Hospital is not operating at or near the national efficient price and system-wide activity has been growing at levels well beyond population growth.

Since 2007, the Territory has employed an additional 393 medical officers and 1058 nurses, with growth in these positions significantly outpacing population growth (Chart 18). The use of labour hire (for example, agency nurses) has also increased significantly, growing from around \$9 million in 2006-07 to around \$61 million in 2017-18 (equating to average annual growth of almost 20 per cent). The Territory cannot afford to continue on this trajectory without making significant cuts to other government services.

To restore financial sustainability to the health budget, the demand parameter should be moderated to reflect long-term population growth (that is, around 1.4 per cent per annum) and be applied to all health expenses to remove existing incentives to move programs/functions between the department and networks to maximise budget indexation. Given the impact of health services on the Territory budget, every effort must be made to improve service delivery efficiency.

Chart 18: NTPS medical officers and nurses per 10 000 people



Source: Department of Treasury and Finance; ABS, Australian Demographic Statistics, Cat. No. 3101.0

- 4 Commonwealth of Australia, 2015 Intergenerational Report Australia in 2025, 2015, accessed February 2019 (https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf)
- 5 Daley, J., Duckett, S., Goss, P., Terrill, M., Wood, D., Wood, T., and Coates, B., State Orange Book 2018. Grattan Institute, accessed February 2019 (<https://grattan.edu.au/report/state-orange-book-2018/>)

Implementing the proposed forward estimates model reforms would deliver significant savings through the broader application of efficiency dividends and downward revisions to wages indexation⁶. Savings through revisions to the efficiency dividend are estimated at around \$50 million in the first year. Revisions to wages indexation also offer significant scope for savings but cannot be realised until the expiry of current enterprise agreements, most of which are in place until at least 2021-22.

Over time, the package of structural reforms recommended in this report should lessen the long-term reliance on efficiency dividends as efficiency and effectiveness will already be maximised.

Key issues

Adjustments to the forward estimates model are relatively straightforward, however, the resultant budget reductions will require a range of policy decisions to enable agencies to alter expenditure accordingly and will need to be mindful of limitations associated with existing agreements and contracts. The adjustments will also require a cultural change in many of government's service delivery partners not previously required to continuously seek to improve productivity and efficiency.

Modest efficiency dividends can drive a sustained focus on productivity improvement. However, over reliance on this relatively blunt instrument can lead to unsustainable practices (for example, underspending on repairs and maintenance, which can reduce the useful life and efficient performance of an asset) and defer the need to make difficult but necessary decisions on specific programs and activities.

The proposed approach seeks to mitigate these risks by focusing on a more equitable application of efficiency dividends rather than significant increases in the headline efficiency dividend. Notwithstanding, it should be acknowledged that the failure of frontline agencies to achieve existing discounted efficiency dividends has been a key contributor to their current cost overruns.

Changes to the wages parameter need to be considered in context of recommendations for a new wages policy, given that actual wage inflation is largely driven by enterprise agreement outcomes.

Recommendations

- 5.1.1 Remove the efficiency dividend exemption from grants and property management expenses across the forward estimates.
- 5.1.2 Abolish the efficiency dividend discount.
- 5.1.3 Review the wages indexation factor as part of the development of a new wages policy.
- 5.1.4 Replace the special demand parameter for hospital and primary health services with a population based indexation factor applied equally across the health department and networks.

⁶ Refer to goal 3 for further detail on recommended changes to the wages policy.

Budget transparency and accountability

Current situation

The 2016 PEFO budgeted for expenditure growth averaging 0.9 per cent per annum over the forward estimates period (2016-17 to 2019-20), including efficiency dividends of up to 3 per cent per annum. While actual expenditure growth has outpaced the 2016 PEFO forecasts due to additional funding for a range of election commitments, new initiatives and additional tied Commonwealth payments, a number of frontline agencies⁷ have also been unable to manage within their approved budgets, with the subsequent cost overruns contributing to the deterioration in the Territory's financial position.

Ensuring agencies operate within their approved budget is critical to successfully returning the Territory budget to balance. The Territory Government currently fosters and monitors budget compliance through a range of mechanisms including:

- budget papers that detail the Territory Government's overarching fiscal strategy and targets over the forward estimates period (Budget Paper No. 2) and the budget and KPIs for individual agencies for the current financial year and subsequent budget year (Budget Paper No. 3)
- the budget estimates process, which provides an opportunity to scrutinise the Appropriation Bill and related budget papers
- annual reports that detail the actual financial and operational performance of agencies
- the Treasurer's Annual Financial Report, which provides a comprehensive report of the Territory Government's overall financial outcomes and includes the Treasurer's Annual Financial Statement prepared in accordance with section 9 of the *Financial Management Act* and section 16 of the *Fiscal Integrity and Transparency Act*
- the Budget Review Subcommittee, which scrutinises proposals with financial and staffing implications prior to consideration by Cabinet, monitors the financial performance of agencies throughout the year, and commissions external reviews to identify return to budget strategies where agencies have deviated from their approved budget
- the accountable officer provisions under the *Financial Management Act*, which prohibit the commitment of money for expenditure unless the accountable officer is satisfied that, when payment in respect of a transaction falls due, there will be sufficient funds available in the operating account to make the payment (the maximum penalty for failure to comply with a provision in the Act is 100 penalty units).

To date, the current budgeting and compliance mechanisms have been broadly successful in ensuring non-frontline agencies remain within their approved budget. However, the requirement for interim budget support totalling \$86 million in 2017-18 for the Department of Health (\$60 million), Northern Territory Police, Fire and Emergency Services (\$16 million) and the Department of the Attorney-General and Justice (\$10 million) indicates that further accountability measures are required to instil a culture of fiscal discipline across service delivery agencies.

⁷ Namely the Department of Health (including the health networks), Northern Territory Police, Fire and Emergency Services, the Department of the Attorney-General and Justice and Territory Families.

Proposed reforms

Financial reporting

To improve the transparency of the Territory Government's financial position, and in recognition of the timeframe for budget repair under scenario 2, future budget papers should include financial information regarding key whole of government fiscal aggregates and agency budgets beyond that currently published.

The five-year whole of government key fiscal aggregates summary reporting in Budget Paper No. 2 (comprising the current year, the budget year and three forward years) should be extended to 10 years to align with the medium-term approach to budget repair. Similarly, the two-year agency output budget summary reporting in Budget Paper No. 3 (comprising the current year and the budget year) should be extended to five years to clearly illustrate the approved expenditure trajectory for each agency.

Scenario 2 is premised on restraining Territory-funded expenditure growth to three per cent per annum over the projection period. It will be important that the budget papers clearly differentiate between total expenses (which include externally funded programs) and Territory-funded expenditure (output appropriation) as the time-limited nature of many externally funded programs can artificially dilute the headline rate of expenditure growth in outer years.

The proposed changes to the budget papers will enable government to clearly detail its medium-term fiscal targets and agency expenditure trajectories and provide a baseline against which performance can be measured.

Ministerial and chief executive accountability

Ensuring agencies operate within their approved budget is fundamental to successfully returning the budget to balance at the whole of government level.

A number of agencies are currently operating well beyond their approved budget and the repercussions for the relevant ministers and chief executives have thus far included a requirement to develop and present a return to budget strategy to the Budget Review Subcommittee and strong communication from the Chief Minister and Treasurer on the need to restore fiscal discipline in these agencies. The Territory Government has also revised the structures of its health networks in response to significant health overspend.

To increase the level of accountability for agency financial performance, it is important that there are clearly defined and understood repercussions for the key influencers of agency financial performance including chief executives and ministers. For larger agencies, it will be important to include the broader senior executive team in recognition of the significant role these positions play in the overall financial performance of the organisation.

In the first instance of non-compliance with budget, consideration should be given to limiting the autonomy of key influencers of the agency's financial performance, with the role of the Budget Review Subcommittee strengthened to include determining the range of sanctions that could be applied. In the event of repeat non-compliance, the Chief Minister will need to consider harsher measures to send a clear message that budget discipline is paramount to achieving the Territory Government's fiscal objectives.

Initial repercussions for non-compliance with budget could include:

- lifting the agency's delegation levels for employment and procurement matters (potentially to the Under Treasurer)
- adjusting reporting lines to include a requirement for the agency's chief financial officer to report to the Under Treasurer
- quarterly reporting by the relevant minister to the Budget Review Subcommittee on the financial performance of the agency with a particular focus on achieving savings targets
- formal notice from the Chief Minister, Treasurer and relevant minister to the chief executive on the importance of meeting budget targets, including savings targets
- inclusion of financial targets in chief executive annual performance plans, including agreed sanctions for non-compliance
- commissioning independent expenditure reduction plans with the terms of reference to be determined by the Budget Review Subcommittee and the remuneration and ongoing employment of relevant executives tied to the successful implementation of the plans.

Financial performance scrutiny committee

The current budget estimates committee process provides an opportunity to examine the:

- estimates of proposed expenditure contained in the Appropriation Bill and related budget documents
- activities, performance and financial management of the Territory's government owned corporations, with reference to those corporations' Statements of Corporate Intent
- performance of agencies as outlined in their annual reports.

The budget estimates process is generally held in June which, while appropriate for reviewing forward projections, prevents contemporaneous analysis of actual performance in the current financial year compared to the original budget. To better hold the key influencers of agency financial performance to account, an additional parliamentary committee should be established later in the calendar year focused on reviewing actual performance against budget and, where relevant, reviewing performance against agencies' approved plans to return to budget. Government owned corporations should also be included in the process.

To avoid imposing an unnecessary administrative burden on the NTPS, and to focus the committee's activities on holding the relevant agencies and ministers to account for their financial performance, scrutiny should be concentrated on the financial performance of agencies that have failed to manage within their budget (and government owned corporations that have failed to manage within their statement of corporate intent) and agencies implementing return to budget plans.

The committee chair should be an independent position (for example, the Speaker of the House) to reduce the potential for partisanship. Where possible, written questions should be provided prior to the meeting to aid the effectiveness of the process.

The proposed committee would also review whole of government performance against the fiscal strategy and have the opportunity to directly question departmental officers, similar to the Commonwealth Senate Estimates process.

Legislating budget targets

To further increase accountability for financial performance, consideration should be given to legislating budget targets and strengthening the accountable officer provisions in the *Financial Management Act*.

Sustainably managing the Territory's debt and net debt to revenue ratio is a key focus of the Territory Government's fiscal strategy and the driver of the need to return the budget to balance. As such, it is recommended that the Territory Government legislate a limit on the level of debt the Territory Government can incur (that is, a debt ceiling).

The debt limit should be supported by strengthening the accountable officer requirements in the *Financial Management Act* to limit the ability of accountable officers to commit money for expenditure in excess of the approved budget. A Treasurer's Direction, clearly outlining the repercussions for accountable officers for non-compliance with the *Financial Management Act*, should also be developed. The repercussions should be broadly consistent with those proposed at recommendation 5.1.7.

Key issues

Financial reporting

Modifying the reporting in budget papers is relatively straightforward and would be limited to high level information (that is, excluding detailed financial statements). However, it is acknowledged that some ICT system changes to the Department of Treasury and Finance's budget system will be required.

Discussions with Department of Treasury and Finance officials suggest that the extended whole of government reporting could commence from the 2019 Mid-Year Report, expected to be published in December 2019, with extended agency reporting commencing from the 2020 Budget.

Ministerial and chief executive accountability

Formalising budget accountability through clearly defined and understood repercussions for the key influencers of agency financial performance represents a significant cultural change for ministers and chief executives.

It will be critical that the repercussions apply to all the key influencers of agency financial performance, not solely chief executives, in recognition of the limitations that can be placed on the chief executives, particularly at the ministerial level, in terms of rationalising programs and functions to deliver the necessary efficiencies.

Financial Performance Scrutiny Committee

The financial performance scrutiny committee process is intended to complement the existing budget estimates process by scrutinising actual spending outcomes after year end against the originally approved budget. To be effective, it will be important that public servants are able to be called upon to answer questions directly.

Legislating budget targets

While legislating a debt limit could be perceived as a largely symbolic gesture given the Territory operates a unicameral parliament, it would provide an additional incentive for agencies and the Territory Government to maintain the focus on budget repair and provide a signal of intent to rating agencies and the community.

A debt ceiling approach offers more flexibility than legislating agency specific targets, which would likely need to be regularly varied to reflect Commonwealth funding and machinery of government adjustments. Agency specific expenditure will be targeted through strengthening the provisions under the *Financial Management Act* (and associated Treasurer's Directions) and the establishment of a parliamentary committee scrutinising financial performance (recommendation 5.1.8).

Recommendations

- 5.1.5 Publish 10-year budget and forward estimates key fiscal aggregate information in Budget Paper No. 2.
- 5.1.6 Publish five-year agency output information in Budget Paper No. 3.
- 5.1.7 Strengthen the processes and level of ministerial and executive accountability for agency financial performance.
- 5.1.8 Establish a parliamentary committee to scrutinise agencies' actual financial performance against the original budget.
- 5.1.9 Legislate a debt ceiling.
- 5.1.10 Strengthen the accountable officer requirements in the *Financial Management Act* to limit the ability of accountable officers to commit money for expenditure in excess of the approved budget and develop a Treasurer's Direction clearly outlining the sanctions for accountable officers for non-compliance with the Act.

Reform map 1: Accountability and transparency

A transparent and accountable budget framework and estimates process that fosters a culture of compliance with the fiscal strategy and budget targets.

Setting agency budgets – the forward estimates model

Recommendation 5.1.1:

Remove the efficiency dividend exemption from grants and property management expenses across the forward estimates.

Recommendation 5.1.2: Abolish the efficiency dividend discount.

Recommendation 5.1.3: Review the wages indexation factor as part of the development of a new wages policy.

Recommendation 5.1.4: Replace the special demand parameter for hospital and primary health services with a population-based indexation factor applied equally across the health department and networks.

Budget transparency and accountability

Recommendation 5.1.5: Publish 10-year budget and forward estimates key fiscal aggregate information in Budget Paper No. 2.

Recommendation 5.1.6: Publish five-year agency output information in Budget Paper No. 3.

Recommendation 5.1.7: Strengthen the processes and level of ministerial and executive accountability for agency financial performance.

Recommendation 5.1.8: Establish a parliamentary committee to scrutinise agencies' actual financial performance against the original budget.

Recommendation 5.1.9: Legislate a debt ceiling.

Recommendation 5.1.10: Strengthen the accountable officer requirements in the *Financial Management Act* to limit the ability of accountable officers to commit money for expenditure in excess of the approved budget and develop a Treasurer's Direction clearly outlining the sanctions for accountable officers for non-compliance with the Act.

Goal 2. Financial management

Key points

- A contemporary best practice financial management framework and disciplined resource allocation processes promote a culture of compliance and fiscal responsibility across the NTPS and support the efficient allocation of resources.
- The Department of Treasury and Finance is currently reviewing the Territory's overarching financial management framework, with a particular focus on contemporising the Treasurer's Directions. The scope of this review should be broadened.
- Approving a significant amount of funding outside the budget development process diminishes the ability to maintain the original budget expenditure trajectories and can also reduce the focus on whole of government financial objectives through fragmented decision-making.
- Supplementary funding submissions, outside the annual budget development process, should be limited to extraordinary items and should require the identification of offsetting savings (refer to the proposed Charter of Budget Discipline).
- To better incentivise the achievement of government's intended outcomes, consideration should be given to using mechanisms such as milestone and reward payments for agencies.
- Agencies that achieve outcomes and spend within approved budget should be rewarded to reduce the perverse expenditure incentives created under the current 'use-it or lose-it' system.

Goal

A whole of government financial management framework that supports the efficient allocation of resources to achieve the Territory Government's priorities and promotes a culture of fiscal responsibility.

Context

All jurisdictions, including the Territory, have some form of financial management framework underpinned by legislation, policies and procedures to ensure public resources are managed in an appropriate and transparent manner. Every jurisdiction also has an annual budget process, which provides the resources to give effect to the government's strategic priorities.

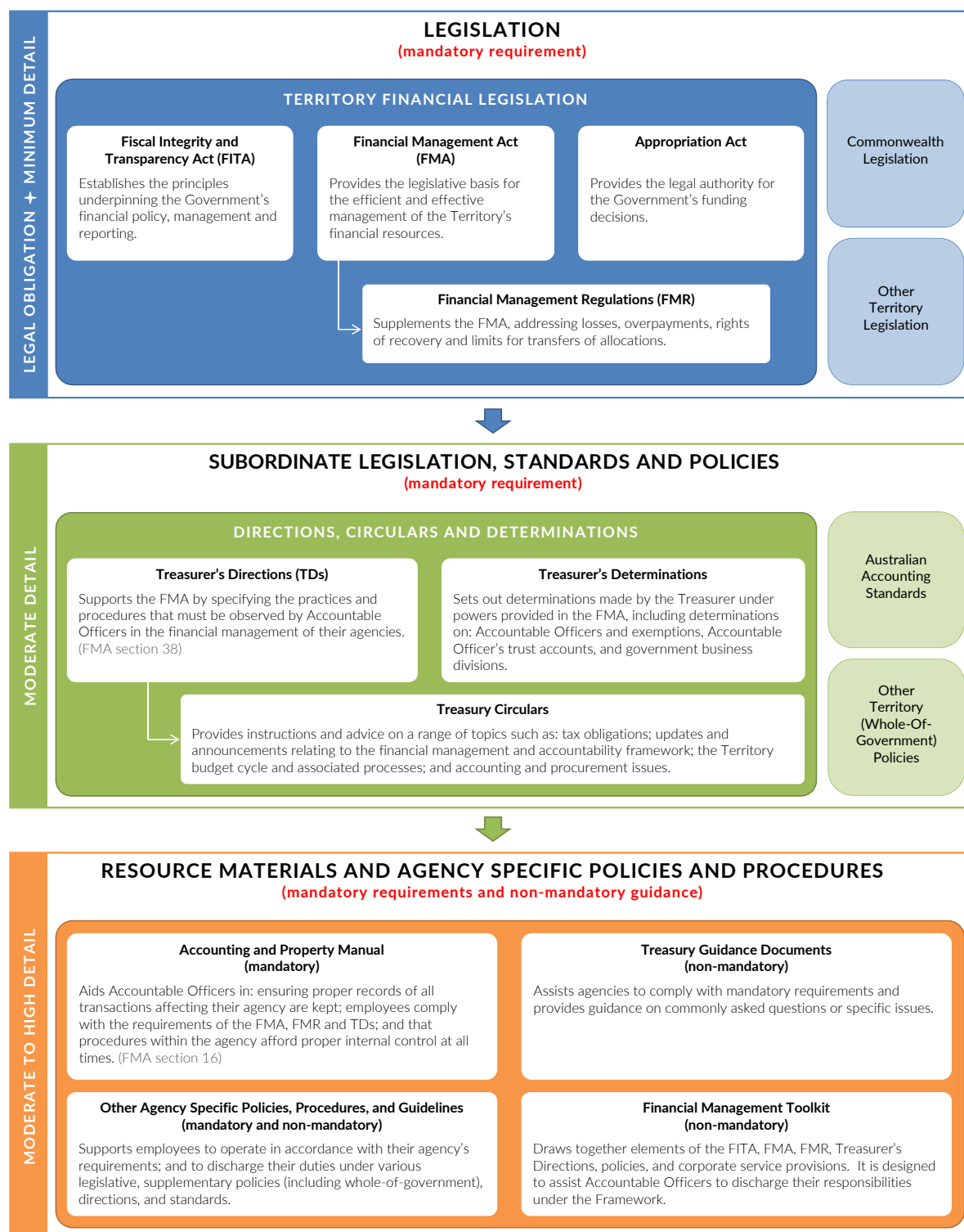
A contemporary best practice financial management framework and disciplined resource allocation processes promote a culture of compliance and fiscal responsibility across the NTPS and support the efficient allocation of resources.

The Financial Management and Accountability Framework

Current situation

The Territory Government's financial management and accountability framework is set out in Figure 2.

Figure 2: Northern Territory Financial Management and Accountability Framework



The Department of Treasury and Finance administers the Territory Government's Financial Management and Accountability Framework, which provides instruction and guidance to agencies in relation to a range of financial management requirements such as:

- budget management
- financial and accounting matters
- reporting obligations
- funds management
- tax obligations
- other accountability requirements.

Although revisions have been made along the way, the last major review of the framework occurred between 2000 and 2002, which involved rewriting the *Financial Management Act*, establishing the *Fiscal Integrity and Transparency Act* and redrafting the Treasurer's Directions. The Department of Treasury and Finance is currently working to streamline the overarching framework and is reviewing and updating the Treasurer's Directions to improve accessibility, contemporaneity and transparency.

Proposed reform

A best practice financial management and accountability framework will improve transparency and promote more accurate financial reporting, leading to better decision-making and compliance, and reduce risk of modified audit opinions and management letter issues.

The Department of Treasury and Finance is currently reviewing the overarching financial management framework, with a particular focus on contemporising the Treasurer's Directions. It would be timely to broaden the scope of the review to include:

- the *Fiscal Integrity and Transparency Act* (FITA)
- the *Financial Management Act* (FMA)
- financial management regulations
- Territory Government policies and procedures issued by the Department of Corporate and Information Services
- agency accounting and property manuals
- agency operational procedure manuals
- Treasury circulars
- Treasurer's determinations
- the Government Owned Corporations Framework.

The broader review should focus on ensuring that the Territory's financial management framework is supported by contemporary best practice legislation, policies and procedures.

Key issues

There are limited risks associated with reviewing the Territory's existing financial management legislation, policies and procedures. Given the period since the last major review, a rolling review program may assist in maintaining contemporaneity.

Extensive consultation across government would be required where changes are identified as being necessary.

Recommendation

- 5.2.1 Review the Financial Management and Accountability Framework and associated legislation, policies and procedures to ensure best practice.

The resource allocation process

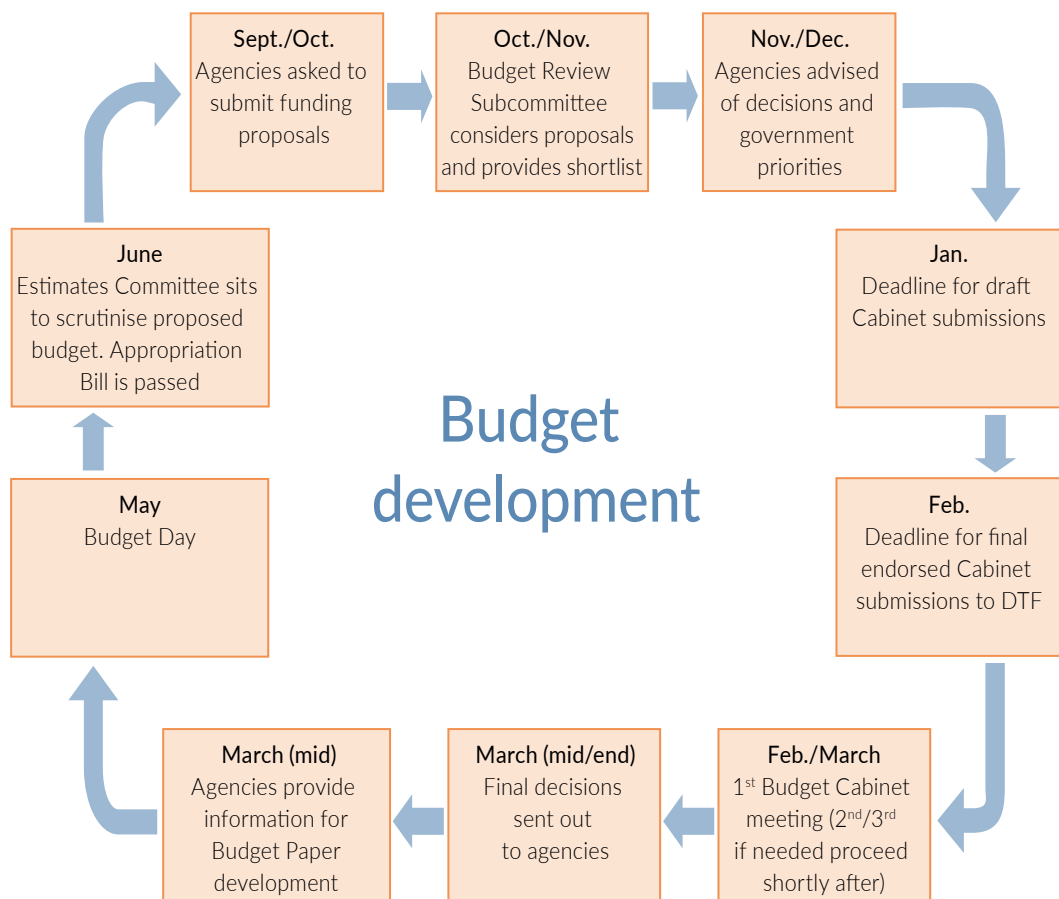
Current situation

The allocation of resources to agencies is primarily done through the annual budget development process. However, agencies can also seek supplementary funding throughout the year through the Cabinet process and, in certain circumstances, can apply for Treasurer's Advance to cover one-off unforeseen expenses.

The budget process

The budget development process used in the Territory is similar to those in other jurisdictions, with specific submission development timeframes and processes adjusted each year in the context of government priorities and the whole of government financial position. Figure 3 provides an overview of the usual process.

Figure 3: The budget development process



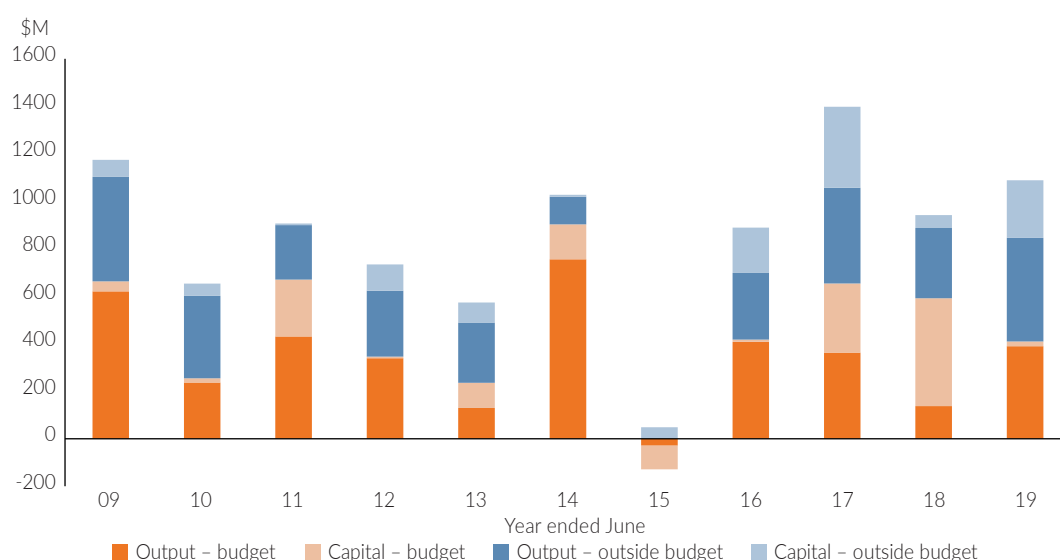
A key difference between the Territory's approach and that used in other jurisdictions is that there are no bilateral budget meetings between portfolio ministers and the Treasurer or Budget Review Subcommittee prior to consideration of proposals by Cabinet⁸. The absence of such meetings both reduces the detailed financial scrutiny applied to submissions and the ability to develop alternative approaches with lower cost options in an informed manner. It can also reduce ministerial ownership of agency appropriations if they have had limited involvement in their determination.

Following the budget development process, key publications such as the Mid-Year Report and Treasurer's Annual Financial Report provide high-level updates on the performance against the original budget.

Supplementary funding

The annual budget is the Territory Government's financial plan for implementing its priorities. Agencies can seek supplementary funding outside the budget development process through a submission to Cabinet. Over the past decade, around 46 per cent of Territory-funded variations to agency budgets have been approved outside the annual budget development process (Chart 19). Only around 28 per cent of the variations outside the budget process relate to capital appropriation⁹.

Chart 19: Output and capital appropriation – variations by approval type¹⁰



Source: Department of Treasury and Finance

Approving a significant amount of funding outside the budget development process diminishes the ability to maintain the original budget expenditure trajectories and can also reduce the focus on whole of government financial objectives through fragmented decision-making.

⁸ Budget Review Subcommittee equivalents in other jurisdictions also tend to play a much stronger role in the budget process and are often the primary decision-making body with Cabinet subsequently playing a largely authorising rather than decision-making role.

⁹ Capital appropriation represents the Territory Government's investment in an agency for asset purchases and capital works projects. Capital grants, which represent an investment in non-Territory Government assets are funded through output appropriation.

¹⁰ The chart shows the total variation in output and capital appropriation (i.e. excludes variations attributable to external funding) across the budget year and forward estimates by year of approval. For example, a \$100 million two-year stimulus program approved in the 2015-16 Budget would be shown entirely in the 2015-16 column.

Treasurer's Advance

Agencies are able to seek Treasurer's Advance to provide additional budget for unforeseen and unbudgeted costs incurred during the year¹¹. The Territory does not have a defined policy on the use of Treasurer's Advance, however, usual practice is that it is limited to one-off extraordinary items that cannot be met from within an agency's existing resources. Applications for Treasurer's Advance are assessed by the Department of Treasury and Finance before recommendations are made to the Treasurer.

The use of the Treasurer's Advance does not, of itself, result in a worsening of the fiscal position as it is a means of distributing unallocated capacity already incorporated within the budget. However, given that any spare capacity could instead be used to improve the fiscal position, it does represent an opportunity cost. The total available Treasurer's Advance capacity for 2018-19 is \$30 million.

Proposed reforms

The budget development process

The Territory's annual budget development process should start with the development of high level priorities for the forthcoming budget that guide budget bid development and decision-making. The Territory process would also benefit from the introduction of bilateral meetings of portfolio ministers with the Budget Review Subcommittee prior to and during the development of Budget Cabinet submissions.

An earlier start to the budget development process would be required to accommodate these meetings, however, it would provide the Budget Review Subcommittee with greater opportunity to shape policy options and scrutinise the financial details and implications of policy options than the current process.

The current process would also benefit from greater rigour in testing proposed staffing requirements for new initiatives. This is in terms of both quantum and classification of additional employees and should require the Office of the Commissioner for Public Employment (OCPE) to provide advice to Cabinet on submissions with staffing implications.

Additionally, when seeking funding for new initiatives, agencies should be asked to define the benefits of the proposal in terms of the impact on their key performance measures published in the budget papers to support the focus on linking outputs to outcomes.

Supplementary funding

Substantive adjustments to the budget should only be made outside the annual budget development process for unforeseen or emergency requirements. This helps to maintain the alignment of expenditure with government's fiscal strategy and targets. Any other supplementary funding submissions should require the identification of offsetting savings to ensure net debt is not worsened (refer to proposed Charter of Budget Discipline).

¹¹ Section 18(2) of the *Financial Management Act* allows the Treasurer to transfer a portion of the Treasurer's Advance to a purpose to which no appropriation has been made by the *Appropriation Act*.

Treasurer's Advance

The lack of a formal policy regarding Treasurer's Advance can weaken incentives for agency efficiency and result in aggregate expenditure creep. It is recommended the Department of Treasury and Finance develops clear and strict eligibility guidelines to support the assessment of applications for Treasurer's Advance funding to ensure it is used for genuinely unforeseen and unavoidable circumstances.

To increase transparency, the Territory should also publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.

Key issues

Budget development process

The proposed changes to the budget development process require a sustained commitment from ministers to engage early in identifying strategic budget priorities and to follow the process to minimise late submissions. The changes associated with more clearly linking initiatives to outcomes will require an increased focus on key performance indicator reporting by agencies.

Supplementary funding

Limiting supplementary funding to unforeseen or emergency items is largely dependent on the resolve of the Budget Review Subcommittee and Cabinet to maintain the course approved through the budget. If effectively implemented, the role of the Budget Review Subcommittee outside the budget development process will shift towards monitoring agency and whole of government financial performance and organisation reviews/ program evaluations.

Treasurer's Advance

Implementing Treasurer's Advance allocation guidelines will limit the flexibility of this funding source, however, this is not expected to have a material impact and is a relatively straightforward reform.

Recommendations

- 5.2.2 Introduce bilateral meetings with the Budget Review Subcommittee prior to and during the development of Budget Cabinet submissions.
- 5.2.3 Require the OCPE to provide advice to Cabinet on submissions with staffing implications.
- 5.2.4 Limit supplementary funding submissions outside the budget development process to extraordinary items and, where possible, require the identification of offsetting savings.
- 5.2.5 Develop clear and strict eligibility guidelines to support the assessment of Treasurer's Advance applications to ensure it is used for genuinely unforeseen and unavoidable circumstances.
- 5.2.6 Publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.

Agency budgets – incentivising performance

Current situation

The Territory budget is the whole of government strategy for allocating resources to achieve government's priorities, while agency budgets are the government's strategy for allocating resources to achieve its priorities at the agency level.

The whole of government and agency budgets are formalised through the *Financial Management Act* and the annual *Appropriation Act*, which authorise the allocation of appropriation from the Central Holding Authority to agencies for the budget year. The Administrative Arrangements Order confirms the government activities and agencies to which the *Financial Management Act* applies.

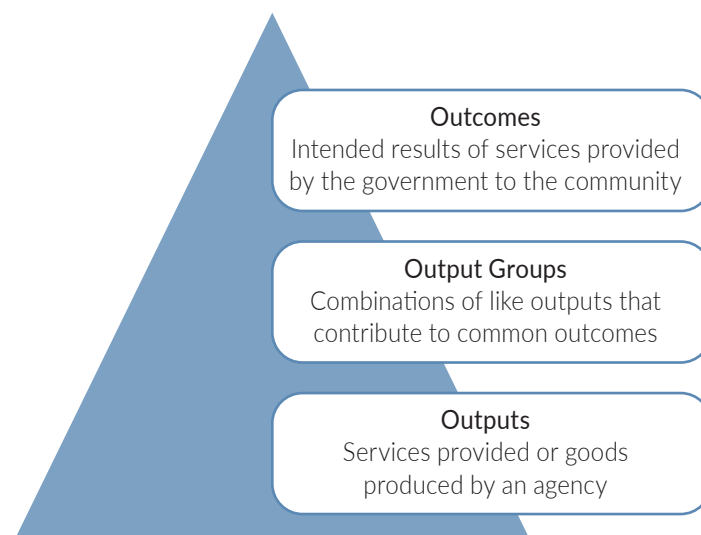
Agency budgets are presented on an accrual and output basis using estimated financial and performance information. Two years of quantitative and qualitative information, for the current and budget years, is published in Budget Paper No.3 setting out:

- an agency's profile, strategic priorities and output and outcome information
- appropriation information – output appropriation, capital appropriation and Commonwealth appropriation as specified in the annual *Appropriation Act*
- expenses for each agency output – individual outputs reconciled to the output group and equating to the total expense as recorded in the operating statement
- performance information – KPIs across output groups
- financial statements – operating statement, balance sheet and cash flow statement
- a revenue statement – detailed information on revenue received by the agency.

Agency actual financial information is published in annual reports along with achievements against performance targets.

Agency budgets are structured on an outputs-for-outcomes basis (Figure 4). Outputs are grouped, where appropriate, to highlight relationships between individual outputs and enable a strategic view of services provided. Outcomes reflect the government's policy direction and describe the reason why particular outputs are delivered.

Figure 4: Outputs hierarchy



The structure is intended to ensure that resources are directed toward achieving the results intended by government, however, there is no direct link between actual performance and future budgets.

Proposed reforms

Government is the purchaser of outputs and the owner of agencies. In essence, the government is seeking to purchase outcomes through the delivery of outputs.

To better incentivise the achievement of government's intended outcomes, a shift in mindset is required to more directly link the delivery of outputs with the achievement of outcomes. This can be supported through a variety of mechanisms including introducing milestone/reward payments, similar in concept to those used in Commonwealth funding agreements with the Territory, with funding subject to the achievement of key performance indicators. This approach could be linked with sunset clauses, whereby new programs are funded on a time-limited basis, with ongoing funding (or funding for subsequent stages of a phased initiative) tied to the successful achievement of pre-defined outcomes.

The approach should also be supported by more comprehensive public reporting of agency performance information to encourage greater efficiency and shift public debate and accountability from an input to an output and outcomes focus.

Consideration should also be given to rewarding agencies that achieve outcomes and spend within their approved budget by allowing departments to retain a share of underspends. This would reduce the perverse expenditure incentives created under the current 'use-it or lose-it' system.

Key issues

Introducing reward/milestone funding would be a significant departure from past practice and may require time to develop systems to define, measure and monitor outcomes. Clear guidelines and policies would need to be developed to objectively assess performance and employment practices will need to be aligned to funding profiles. The approach may not be suitable for all new programs.

Recommendations

- 5.2.7 Implement reward/milestone-based budgeting for new initiatives to incentivise the achievement of desired outcomes.
- 5.2.8 Reward agencies that achieve outcomes and spend within their approved budget by allowing them to retain a share of underspends.

Reform map 2: Financial management

Whole of government financial management framework that supports the efficient allocation of resources to achieve the Territory Government's priorities and promotes a culture of fiscal responsibility.

The Financial Management and Accountability Framework

Recommendation 5.2.1:

Review the Financial Management and Accountability Framework and associated legislation, policies and procedures to ensure best practice.

The resource allocation process

Recommendation 5.2.2: Introduce bilateral meetings with the Budget Review Subcommittee prior to and during the development of Budget Cabinet submissions.

Recommendation 5.2.3: Require the OCPE to provide advice to Cabinet on submissions with staffing implications.

Recommendation 5.2.4: Limit supplementary funding submissions outside of the budget development process to extraordinary items and, where possible, require the identification of offsetting savings.

Recommendation 5.2.5: Develop clear and strict eligibility guidelines to support the assessment of Treasurer's Advance applications to ensure it is used for genuinely unforeseen and unavoidable circumstances.

Recommendation 5.2.6: Publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.

Agency budgets – incentivising performance

Recommendation 5.2.7:

Implement reward/milestone-based budgeting for new initiatives to incentivise the achievement of desired outcomes.

Recommendation

5.2.8: Reward agencies that achieve outcomes and spend within their approved budget by allowing them to retain a share of underspends.

Goal 3. Workforce sustainability and capability

Key points

- Employee costs are the largest expenditure item in the Territory budget. The NTPS is also the Territory Government's largest asset.
- Employee costs can be reduced either by (or a combination of both):
 - reducing or capping growth in the number of staff
 - reducing or capping growth in the average cost of staff.
- To return the budget to balance the Territory Government will need to halt the growth in the NTPS. This is particularly important in the next three years, given that any changes in the wages policy will have limited practical effect until 2021-22 due to the timeframes of current enterprise agreements.
- As an interim measure the Territory Government should implement staffing caps. This measure should be supported by a hiring freeze for agencies that exceed their cap and/or their budget.
- Over the forward estimates, the Territory Government should adopt a new wages policy to address the emerging gap between public and private sector wages in the Territory.
- The new wages policy should also be accompanied by a broader review of the Territory's industrial relations framework with a view to reducing the burden placed on Territory businesses to compete with the NTPS's more generous entitlements and conditions.
- A whole of government strategic workforce board should be established to oversee the development of standardised workforce reporting across government and targeted workforce strategies.
- The Territory should introduce a Job Family model for corporate roles common across agencies to improve workforce efficiency and flexibility.
- Ultimately, budget repair will require reforms to reduce employee costs across the NTPS. This report has focused on reforms to reduce the average cost of NTPS employees, however, if this is unsuccessful, a reduction in staff levels will be necessary.

Goal

An industrial relations framework and workforce model that supports a skilled and flexible NTPS to effectively and efficiently deliver the Territory Government's strategic priorities.

Context

Employee costs are the largest expenditure item in the Territory budget. Stemming the growth in these costs will be crucial to budget repair. In broad terms, this can be achieved in two ways:

- reducing or capping growth in the number of staff
- reducing or capping growth in the average cost of staff

The NTPS is also the Territory Government's largest asset. Building and maintaining workforce capabilities is integral to the effective delivery of the Territory Government's priorities, now and into the future.

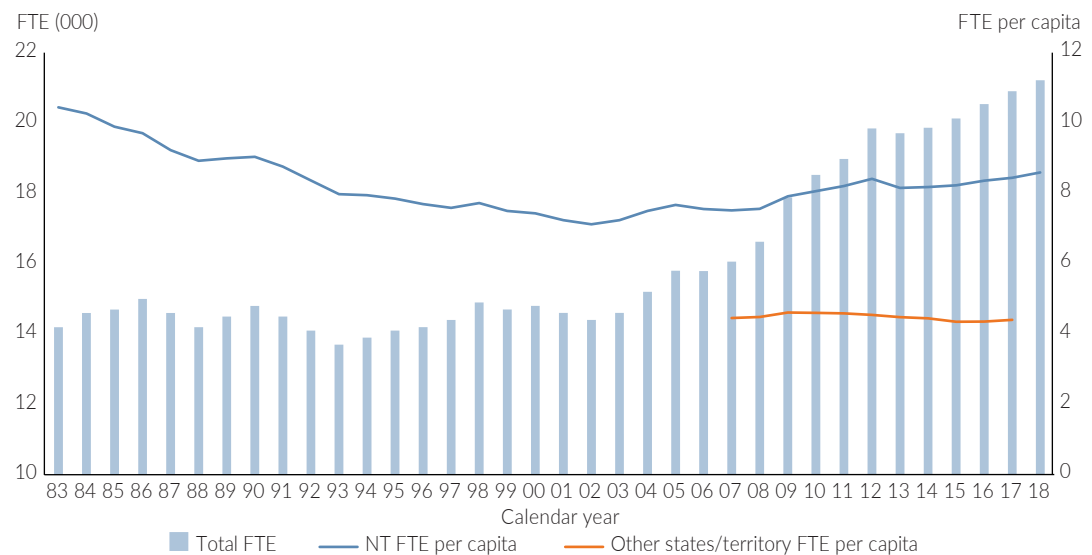
NTPS staffing level and structure

Current situation

As at the December quarter 2018, the NTPS comprised 21 473 full time equivalent staff. While the number of public servants per capita is significantly higher in the Territory compared to the national average, the overall number is relatively small. For example, the total NTPS is less than one third of the size of Queensland's Department of Education and Training.

Between the early 1980s and early 2000s the size of the NTPS remained relatively static. However, following the introduction of the GST in 2000-01, commencement of the Commonwealth's Northern Territory Emergency Response in 2007, and strong population growth associated with a number of major projects across the Territory, NTPS numbers rose rapidly and have remained at elevated levels (Chart 20).

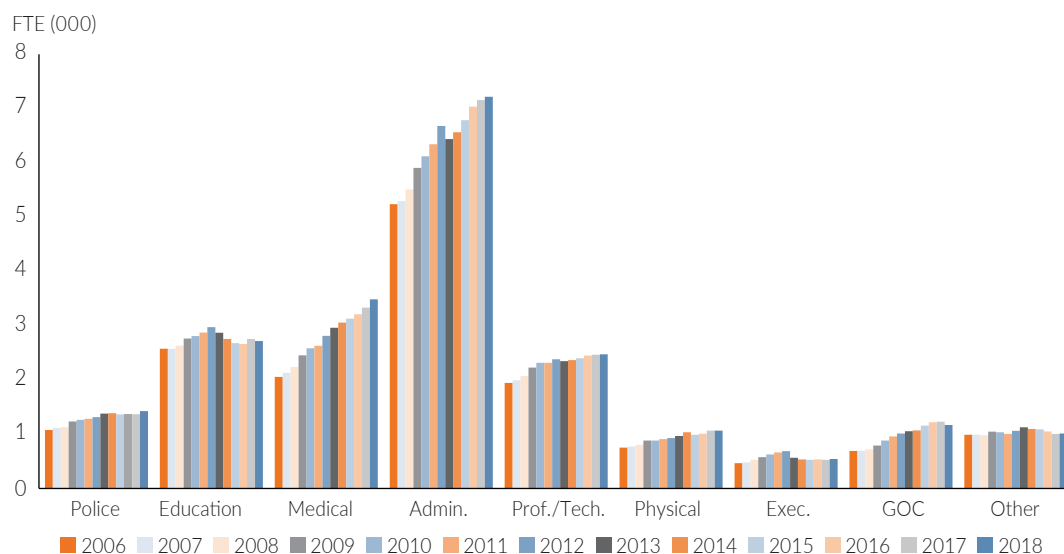
Chart 20: NTPS staffing over time (annual average)



Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

Employment in the NTPS is generally classified by stream. The bulk of the NTPS is employed under the administrative stream, which, in addition to general office-based positions, includes a wide range of frontline and frontline support positions such as public housing safety officers, transit officers, Aboriginal community workers, community corrections officers, Aboriginal mental health workers, CCTV operators, translators, youth outreach and re-engagement officers, court officers and case support workers (Chart 21).

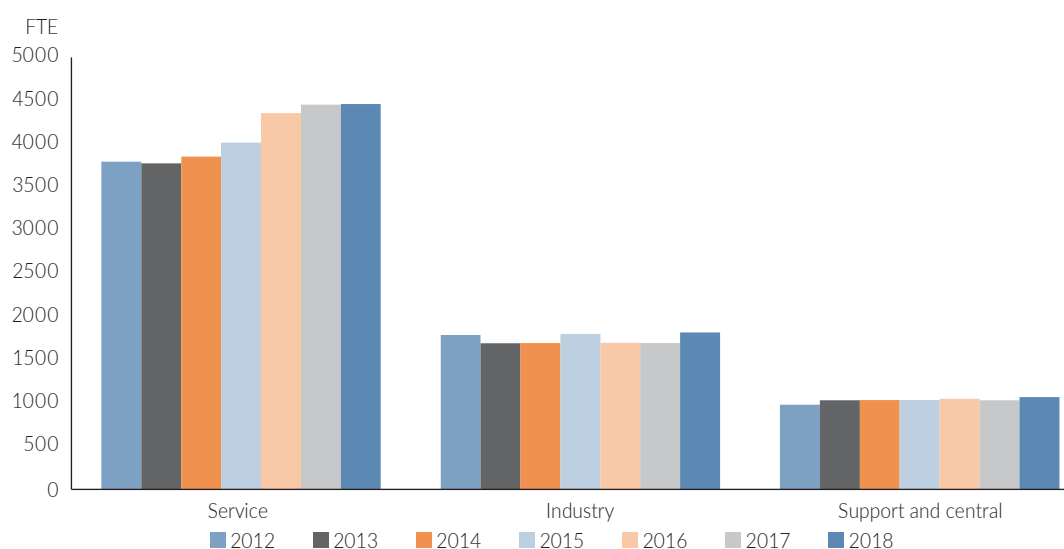
Chart 21: NTPS staffing by stream



Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

Machinery of government changes make it difficult to analyse the growth in staffing in the administrative stream at an agency level over time¹². Aggregating agencies into service, industry, and support and central agencies illustrates the bulk of the growth in the administrative stream has occurred in frontline agencies (Chart 22). The frontline agency increase has been driven by the health sector, although Territory Families and the Department of Education have also recorded significant increases in the past two years.

Chart 22: NTPS administrative FTE staffing by agency classification



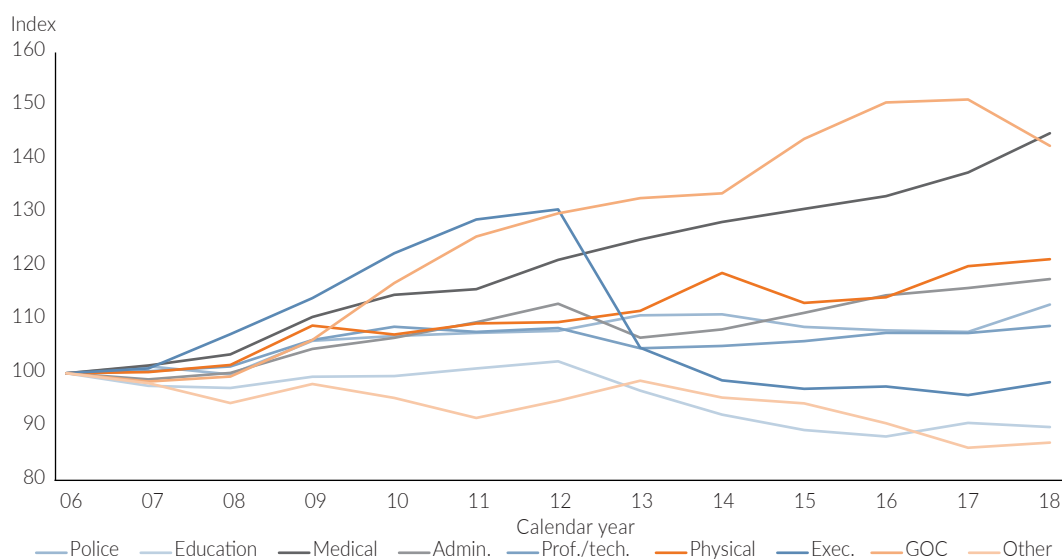
Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

Adjusted for population growth, the most significant increases in staffing since 2007 have occurred in the medical stream (nurses and medical officers) and in government owned corporations, with falls in the number of executive contract officers, teachers and other staff per capita over the period (Chart 23)¹³.

¹² This is not an issue for agency-specific employment streams such as police, teachers and medical officers.

¹³ The reduction in executive contract officers from 2012, mainly reflects the impact of savings measures in the 2012 Mini Budget.

Chart 23: NTPS per capita movement in staffing by stream

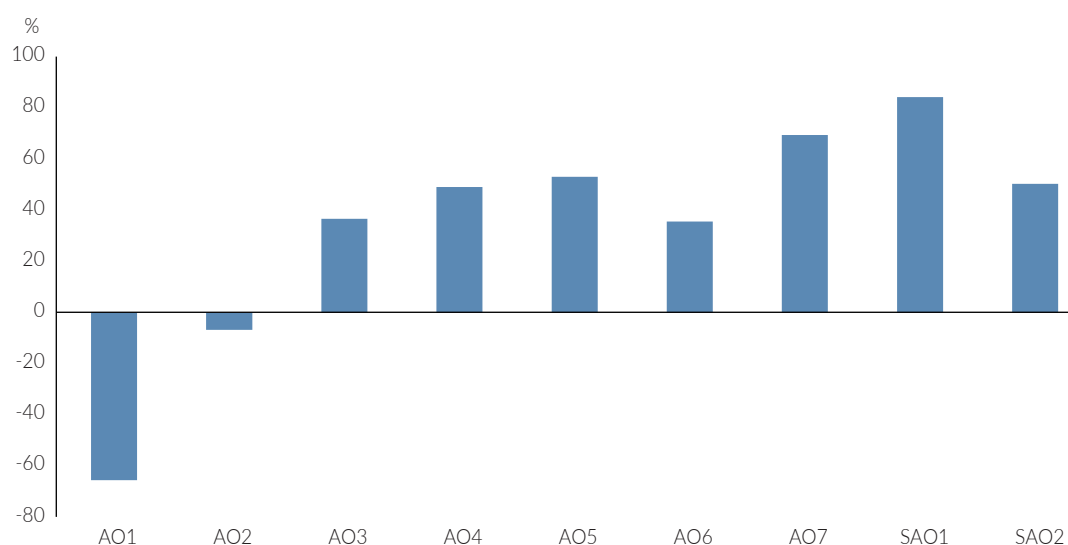


Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

A key pillar of budget repair will be ensuring that NTPS growth is limited to population growth over the medium term. Achieving this while managing increasing community expectations for better services will require shifting the mindset of the public sector towards a single enterprise focus to improve productivity, minimise duplication and provide a more agile service.

In addition to growth in the size of the NTPS, there has been an increase in the average cost of an NTPS employee through classification creep. In 2007, the average public servant in the administrative stream was an AO4, but by 2018 the average public servant was an AO5 (Chart 24). This classification creep has added around \$24 million per annum to the whole of government wages bill in the administrative stream alone.

Chart 24: Changes in the composition of the NTPS between 2007 and 2018



Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

Proposed reforms

A prerequisite to returning the budget to balance will be to stop employment growth across the NTPS. This is particularly important in the next three years, given that any changes in the wages policy will have limited practical effect until 2021-22 due to the timeframes of current enterprise agreements.

As an interim measure to halt staffing growth, it is recommended the Territory Government cap staffing at current levels for three years, in line with the budget targets for no growth over the forward estimates period.

For agencies currently exceeding their expenditure budget, the cap should be augmented by an immediate recruitment freeze, with the cap reviewed once the agency has returned to budget. For other agencies, where the staffing cap is exceeded a recruitment freeze should be applied until the staffing levels return to within the approved cap. These arrangements should be managed and monitored by the Executive Remuneration Review Panel, with regular reporting to the Budget Review Subcommittee.

Staffing key performance indicators should also be incorporated into chief executive contracts to increase accountability.

Around 17 per cent of positions are funded, wholly or in part, through external (mainly Commonwealth) funding. These FTE should be excluded from the cap given the budget-neutral nature of these positions. This will require improved data capture and monitoring by agencies and OCPE.

Key issues

Staffing caps, though immediately effective, are a relatively blunt instrument, which can have unintended consequences, such as encouraging classification creep (whereby agencies compete for a limited number of staff through offering them higher level positions) and greater use of outsourcing/labour hire arrangements.

Given the level of externally funded positions across agencies, which ranges from nil to more than 50 per cent, and that a number of the Territory's largest agencies are currently exceeding budget, calculation of the caps will require careful consideration. The caps will also need to allow for seasonal variations in certain employment streams.

Recommendations

- 5.3.1 Implement a cap on Territory-funded FTE positions for the next three years, with growth in the cap thereafter limited to population growth.
- 5.3.2 Implement an immediate recruitment freeze for agencies currently exceeding their expenditure budget.
- 5.3.3 Incorporate staffing KPIs into chief executive performance agreements.

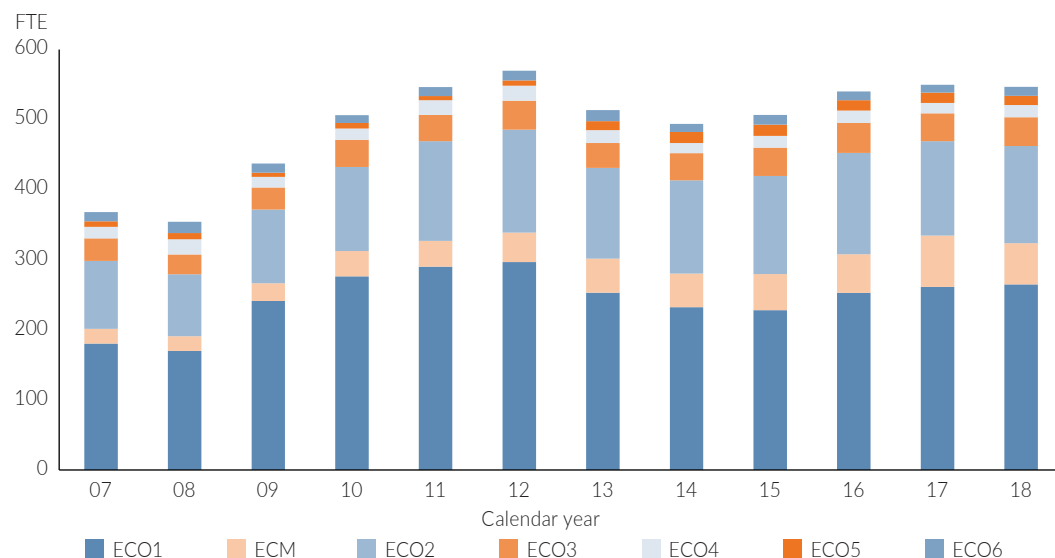
Executive staffing

Current situation

As at December quarter 2018, there were 640 FTE executive officers across the NTPS, representing around 3 per cent of total NTPS staffing. Around 84 per cent of executives across the NTPS are executive contract officers (ECO1 to ECO6) or executive contract managers (ECMs¹⁴), with the remainder comprising executive principals (87 FTE) and the police executive (16 FTE).

Chart 25 illustrates the growth in ECOs and ECMs between 2007 and 2018, with around two thirds of the growth attributable to the ECO1 and ECM classifications.

Chart 25: NTPS executive contract officer numbers over time (FTE)



Source: Office of the Commissioner for Public Employment; Department of Corporate and Information Services; Department of Treasury and Finance

ECOs are remunerated by way of a total remuneration package, which comprises a salary component and an employee benefit component. The employee benefit component includes, among other things, superannuation and the option for a motor vehicle (funded through fortnightly contributions from the package). ECOs are generally entitled to five weeks annual recreation leave.

The ECO classifications were developed and implemented in 1992, predominantly to move more senior/higher paid workers onto fixed term appointments to place the emphasis on performance. To ensure ECO positions could be backfilled during vacancy/leave, the previous permanent executive officer designation (EO1 to EO3) was retained to enable ongoing employees to backfill contract roles.

In 2010, the senior administrative officer level 2 (SAO2) and senior professional level 2 (SP2) roles were introduced to address attraction and retention challenges (during a period of strong economic and private sector wage growth), making the EO1 classification largely redundant.

¹⁴ Executive contract managers are executive contract positions in government owned corporations, similar to an executive contract officer 1 classification.

An anomaly in the NTPS is the relationship between the SAO2/SP2 and ECO1 classifications. The SAO2/SP2 and ECO1 classifications have the same work value for substantially different remuneration packages (SAO2/SP2: \$155 915 to \$169 788 and ECO1: \$217 533 to \$233 565). While SAO2s/SP2s are entitled to six rather than five weeks annual leave, the remuneration differential for a position with the same work value is significant.

Proposed reforms

During the Interim Report stakeholder engagement process, a range of participants raised concerns about the number of executives across the NTPS. The discussions revealed a clear perception among stakeholders that executive numbers had increased significantly in the past decade, and that growth in executives had outpaced frontline positions leading to a more 'top heavy' public service. A number of participants suggested that decreasing executive numbers would go a long way to repairing the budget.

The data indicates that there is a clear gap between actual and perceived growth in executive numbers across the NTPS, which are currently lower than in 2012 despite a 7 per cent increase in total NTPS staffing since 2012 and are unchanged as a proportion of total NTPS staffing since 2007 at 3 per cent.

Notwithstanding, it appears timely to review all ECO levels and their associated remuneration structure with a focus on:

- the construction of the salary package given the industrial entitlements considered in the early 1990s may no longer be relevant
- executive contract officer structures in peer agencies
- the entry point of the executive officer stream.

As part of this review, consideration should be given to converting all existing ECO1 positions to SAO2/SP2 positions as soon as practicable. This could effectively halve the number of executive contract officers in the Territory Government and deliver long-term savings through reducing average employee costs. Further reductions could be achieved if the approach was extended to executive contract managers in government owned corporations (these positions have similar remuneration to ECO1 positions).

The Territory Government should also implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review.

Key issues

Executive staffing reforms will impact some of the Territory Government's most highly skilled and experienced employees, potentially resulting in reduced workforce capability and capacity if persons in affected positions leave the NTPS for alternative employment opportunities. The Territory may also find it difficult to attract high calibre employees.

Consideration may need to be given to grandparenting arrangements for existing ECO1s and will require clear messaging and communications. It will also be important to monitor ECO2 staffing numbers.

As the ECO terms and conditions are determined by the Commissioner for Public Employment, changes must be introduced by revising the current Determination 13 of 2011. This would then take effect from:

1. signing a new contract
2. upon the renewal of a contract
3. terminating an existing contract with an alternative offer of employment.

There are industrial implications associated with the latter two events and further advice will need to be sought from the OCPE (for example, where non-renewal results in a redundancy).

Recommendations

- 5.3.4 Review ECO levels and their associated remuneration structures.
- 5.3.5 Implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review (recommendation 5.3.4 refers).
- 5.3.6 Convert existing ECO1 positions to SAO2/SP2 positions as soon as practicable.

NTPS wages policy

Current situation

OCPE is responsible for the Territory's industrial relations strategy and policy. OCPE is also responsible for negotiating enterprise agreements for the NTPS.

Enterprise agreement outcomes are a key driver of employee cost growth, with a 1 per cent increase in wage outcomes adding around \$26 million to costs in the first year, compounding to around \$80 million per annum by the third year.

The NTPS 2017-2020 wages policy provides the basis for negotiation of enterprise agreements and applies to all agencies, including government owned corporations. The objectives of the policy are:

- to support collective bargaining in the NTPS
- to maintain fair and reasonable terms and conditions of employment
- to support the government's strategic objectives.

Prior to the 2018 Budget, the policy specified that agreement outcomes:

- will have a total cost of up to 2.5 per cent per annum (total cost means the cost of salary and allowance increases, salary restructuring, changes to conditions and increases to Territory Government employer superannuation contributions)
- are not to contain policy or procedural matters that are best served at the agency level
- are to retain a common core NTPS conditions of employment (for example, leave, superannuation, redundancy, hours of work provisions) across the service
- are to emphasise flexibility of employment that benefits both the employer and the employee.

In the 2018 Budget, the Territory Government approved amendments to the wages policy, from 1 October 2018, for enterprise agreements not already in place or that had not already gone to ballot, to stipulate that new enterprise agreements will have a total cost of up to 2 per cent per annum (including salary and allowance increases, salary restructuring, changes to conditions, but excluding increases to employer superannuation contributions). The commencement date of the new policy was later deferred to 14 December 2018.

Table 6 details the enterprise agreements across government and their respective expiry dates. A number of agreements have been negotiated under the 2.5 per cent policy and are in place until at least 2020-21. The majority of agreements currently being negotiated also fall under the 2.5 per cent policy¹⁵ and will not expire prior to 2020-21.

Table 6: Territory Government enterprise agreements

	FTE Staff ¹	Commencement	Expiry
Nurses ²	2 687	17/12/2014	9/8/2018
Teachers	2 674	25/9/2018	11/10/2021
Firefighters ³	202	24/1/2017	7/11/2017
Corrections ³	470	7/5/2015	2/12/2017
Medical officers	802	25/3/2014	31/12/2017
Aboriginal medical officers ⁴	71	29/11/2013	10/8/2017
Power and Water ⁵	873	27/10/2015	15/7/2018
Territory Generation ³	194	27/10/2015	15/7/2018
Dentists	20	4/11/2014	21/8/2018
Police	1 454	16/2/2018	29/6/2019
Jacana Energy	68	23/4/2018	30/6/2021
NTPS General	11 025	30/5/2018	10/8/2021

1 As at December 2018.

2 Lodged with Fair Work Commission for formal approval of the new agreement.

3 New in-principle agreement reached.

4 New agreement being negotiated. Current terms and conditions apply under the old NTPS General Enterprise Agreement.

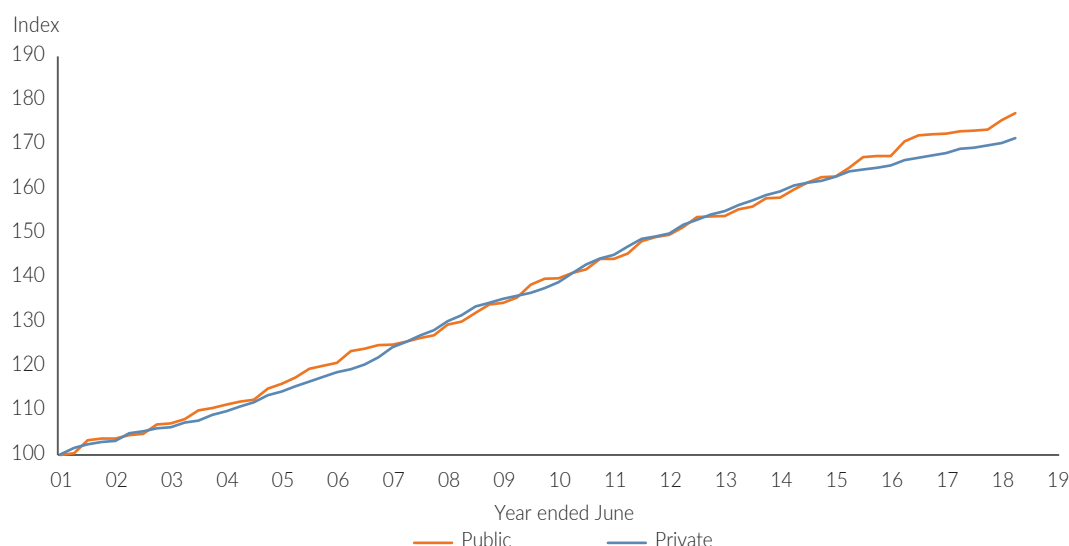
5 New agreement gone to ballot.

Source: Office of the Commissioner for Public Employment

Wages growth in the NTPS has outpaced the private sector over the past decade, with a gap between the sectors becoming particularly apparent since 2015-16 as the private sector in the Territory reduced wages in response to moderating economic conditions (Chart 26). While the Territory Government's wages policy has been reduced over the past two budgets from 3 per cent to 2.5 per cent (2017 Budget) and now 2 per cent (2018 Budget), the gap between public and private wages in the Territory is expected to continue to widen over the next few years given recent enterprise agreement outcomes and economic forecasts.

¹⁵ The 2 per cent policy will only apply to agreements that did not reach in-principle agreement to go to ballot prior to the cut-off date. Where ballots are unsuccessful, the 2 per cent policy will apply to subsequent offers.

Chart 26: Public and private sector wage price indices – Northern Territory



Source: ABS, Wage Price Index, Australia Cat. No. 6345.0

NTPS employees also receive a range of entitlements not generally available in the private sector including six weeks annual leave (seven weeks for some employment streams such as police, nurses and correctional officers), unlimited sick leave for certain employment streams, housing allowances and entitlements (including in urban areas for select employment streams) and a wide range of agreement-specific allowances and penalties¹⁶. Many of these entitlements date back to self-government and would not exist under a contemporary remuneration structure.

In addition to the pressure on private businesses and non-government organisations to compete with the more generous wages and entitlements offered in the NTPS, the accompanying level of complexity in NTPS enterprise agreements has significant downstream impacts on workforce management, payroll efficiency and ICT system requirements.

Proposed reform

Addressing the emerging gap between public and private sector wages in the Territory will take time given the majority of NTPS enterprise agreements are locked in for the next three years. Nonetheless, restraining NTPS wages growth could contribute significantly to budget repair over the medium term and lessen the need to reduce staff numbers. It would also ease the burden placed on Territory businesses to compete with the NTPS's more generous wages and conditions.

There are two broad approaches that could be adopted under a new wages policy:

1. maintaining a percentage based cost cap and revising the rate (currently at 2 per cent per annum) to a lower figure (for example, 1 per cent per annum)
2. expressing the cap in dollar terms (for example, \$1000 per annum) – recommended option.

¹⁶ Payroll data indicates that there are currently around 970 different allowances being paid to NTPS employees.

Western Australia has recently introduced a dollar-based cap of \$1000 per annum in response to the need for budget repair in that state. Western Australia also implemented a wage freeze for executive, judicial and ministerial classifications.

For the Territory, the savings associated with implementing a dollar based cap of \$1000 per annum are slightly higher than adopting a 1 per cent wages cap and would focus the benefits on employees with relatively lower wages.

A new wages policy should also be supported by a review of NTPS entitlements, with the aim of harmonisation and simplification to drive operational and processing efficiencies across the NTPS. At a minimum this should include:

- reviewing entitlements in the context of those available in the private sector
- consolidating and simplifying allowances
- harmonising shift arrangements
- removing housing allowances and entitlements in areas where an established private market exists (for example, Darwin, Alice Springs, Katherine)¹⁷.

Importantly, the new wages policy should contain provisions preventing the payment of backpay or equivalent sign-on bonuses, which significantly reduce the incentive to expeditiously resolve enterprise agreement negotiations.

The new wages policy should also be augmented by a wage freeze for executives and parliamentarians.

Key issues

The wages policy can be revised immediately, however, the resulting savings will be dependent on the ability of the Territory Government to successfully negotiate enterprise agreement outcomes within the policy. Additionally, savings will not be achievable in the short term as agreements for the bulk of the NTPS have recently been agreed for next three years (or are in the process of being agreed under the existing policy).

While there is a clear need to review the range and quantum of entitlements and allowances offered across the NTPS, it is important to be mindful of the potential impact of any changes on the attractiveness of the Territory Government as an employer.

The Territory Government operates in a competitive national labour market and the Territory is often perceived as a less desirable destination for a range of factors, including isolation and climate. Any allowances and entitlements required to maintain the Territory's competitiveness in the national labour market need to be evidenced-based and regularly evaluated to avoid building an overly complex industrial environment through accumulated piecemeal decisions.

Changes to employee entitlements would also have a range of legislative and industrial relations implications that would need to be addressed, including Fair Work requirements.

Workforce reform is likely to be highly contentious and emotive. However, to return the budget to balance the Territory Government can either make significant and immediate

¹⁷ These changes could be highly challenging to implement and may necessitate grandfathering of some existing arrangements.

cuts to the public service or restrict the growth in employees and employee costs over the medium term.

In the current economic circumstances, and given that people and families tend to migrate to and from the Territory on the basis of employment, the medium-term approach is a more sustainable option.

Recommendations

- 5.3.7 Develop a new wages policy based on a \$1000 per annum wage increase, including a wage freeze for executives and parliamentarians.
- 5.3.8 Rationalise awards, harmonise conditions and review entitlements across the NTPS.
- 5.3.9 Explicitly prohibit backpay or equivalent sign-on payments under the new wages policy to encourage timely bargaining resolution.

NTPS employment framework

Current situation

National legislation determines the employment framework for all employers and employees in Australia. In addition to these universal requirements, public sectors often have their own legislation covering employment principles and practices. The Territory's public sector employment legislation is the *Public Sector Employment and Management Act* (PSEMA).

PSEMA establishes the main framework for managing the NTPS with its subordinate legislation providing additional detail. The framework comprises:

- *Public Sector Employment and Management Act*
- Public Sector Employment Regulations
- employment instructions
- by-laws
- determinations
- public sector instruments
- enterprise agreements.

Historically, there were substantial operational and financial differences between the public and private sectors. However, in recent years the general trend has been to reduce these differences as far as possible.

In this context, a legitimate question is the extent to which the Territory still needs a PSEMA and, if so, whether the current PSEMA is restricting the achievement of greater efficiency, by imposing restrictions that do not exist for other employers.

Additionally, while PSEMA does not directly affect the private and non-government sectors, the Territory Government is the largest single employer in the Territory and changes in NTPS employment terms and conditions can affect competition in the Territory labour market more broadly.

In the Territory, responsibility for PSEMA and the wages policy more broadly rests with the Minister for Public Employment and is managed by OCPE. A number of jurisdictions, including New South Wales and South Australia, have moved this responsibility into the Treasury portfolio in recognition of the budgetary and economic effects of labour policies¹⁸.

Proposed reform

In comparison with other whole of government frameworks (for example, the Territory's financial management and procurement frameworks), the PSEMA framework is complex, with significant opportunity for consolidation and streamlining. There is also a broader question of whether there remains a need for a PSEMA or whether its aims can be achieved through more efficient mechanisms.

OCPE is currently undertaking a review of PSEMA, however, it appears timely to expand the review's remit to include assessment of the contemporaneity and efficiency of the NTPS employment framework more broadly. The review should include a focus on simplifying and streamlining legislation and policies and improving operational and processing productivity, with high level representation in the review from the Department of the Chief Minister and Department of Treasury and Finance. The review's terms of reference should be determined by the Budget Review Subcommittee.

The review should also include options to reduce duplication through consolidation of tribunals and legislation (for example, assessing the merits of maintaining a separate employment Act for police).

To improve the financial, economic and regulatory scrutiny applied to enterprise agreement negotiations and the development of wages policy more broadly, it is recommended that responsibility for industrial relations be moved to the Treasurer's portfolio and the Wages Subcommittee of Cabinet be subsumed by the Budget Review Subcommittee of Cabinet.

Key issues

Changes to the Territory's employment frameworks would require extensive stakeholder consultation and may require legislative amendments. Development of a 10-year whole of government industrial relations strategy may assist in reform implementation.

The proposal to move responsibility for industrial relations to the Treasurer's portfolio would not diminish the statutory role of the Commissioner for Public Employment.

Recommendations

- 5.3.10 Expand the current PSEMA review to include assessment of the contemporaneity and efficiency of the broader NTPS employment framework including options to reduce duplication through consolidation of tribunals and legislation.
- 5.3.11 Move industrial relations to the Treasurer's portfolio and merge the Wages Subcommittee with the Budget Review Subcommittee.

¹⁸ Treasury departments also play a key role in the administration of wages policy in Western Australia and Victoria.

Workforce capability and flexibility

Current situation

A modern, sustainable and agile NTPS is an essential requirement for the effective and efficient delivery of Government priorities.

Stakeholder feedback to the panel cited a reduced capability across the NTPS. This was most commonly mentioned in the context of major project management and regulatory approval processes with a repeated comment being that the loss of experienced and capable NTPS employees with technical expertise in key decision-making roles was contributing to delays in project approvals. The panel also heard that there had been a decline in NTPS employees with strong policy development and administrative capability. This suggests that greater emphasis needs to be given to training employees in policy, technical and administrative skills.

The NTPS undertakes regular reviews of agency workplaces and the workforce (for example, the People Matter survey and State of the Service reports) and has a range of strategies and responses to address workforce issues. Nonetheless, the top four workforce risks identified by agencies in the 2016-17 State of the Service Report all related to people capability, in particular recruiting and retaining skilled people.

While the Territory has an overarching Human Capital Plan and Framework to address workforce capability issues, there is currently no formal whole of government mechanism to monitor workforce capabilities across the NTPS, despite employee costs being the largest expenditure item in the Territory budget. This makes it difficult to identify systemic workforce weaknesses across government or evaluate the effectiveness and efficiency of investment in staff training and development.

Additionally, while there are a range of corporate functions common to all agencies (for example, human resources and finance), the NTPS does not have standardised roles and responsibilities for these functions, which inhibits efficient recruitment, training and retention strategies and prevents effective centralised data analysis and workforce planning.

Proposed reforms

To better identify capability gaps and enable evaluation of the effectiveness and efficiency of training and development expenditure across government, it is recommended that the Territory Government establish a whole of government strategic workforce board (potentially through an expanded remit for the Executive Remuneration Review Panel), which would oversee the development of standardised workforce reporting across government and targeted workforce strategies.

In response to stakeholder concerns regarding the hollowing out of policy, administrative and technical capability across the NTPS in favour of more generalist skills, it is recommended that the whole of government strategic workforce board oversee the development of a comprehensive training program for relevant NTPS employees to build capability in these areas.

It is also recommended that the Territory Government adopts a job families approach to corporate roles common across agencies (for example, human resources, finance, ICT, procurement) to reduce workforce administration costs and enable consistent benchmarking.

Job families is an employment classification model that uses clear and consistent role and skill requirements within common functional areas to enable standardised employment assessment and evaluation and to aid job mobility. The Job Family model is used to varying degrees in a number of jurisdictions including the Australian Public Service.

Introducing a Job Family model would provide a consistent structure within agencies for these functions enabling like-for-like comparisons and benchmarking across government and potentially delivering human resources efficiencies through the use of standardised job descriptions and specifications. It would also facilitate standardised assessment processes, potentially allowing the development of a pool of pre-qualified persons for various roles, reducing administration effort and recruitment costs.

The job families reforms would also enable more effective use of 'big data' (such as Australian labour market data, published by the Australian Bureau of Statistics), to identify high risk capability areas and inform workforce planning.

Key issues

Implementing whole of government strategic workforce reporting will have ICT and administrative implications for agencies, however, these could be minimised through the organisational reforms outlined under goal 4.

Developing and implementing a Job Family model is a significant undertaking requiring dedicated resources and extensive stakeholder engagement to achieve the intended outcomes. To minimise the burden, the model would initially be limited to corporate roles common across agencies (for example, human resources, finance, communications and records management).

Recommendations

- 5.3.12 Establish a whole of government strategic workforce board.
- 5.3.13 Develop a comprehensive training program to address concerns about the hollowing out of policy, administrative and technical capability across the NTPS.
- 5.3.14 Introduce a Job Family model for corporate roles common across agencies.

Reform map 3: Workforce sustainability and capability

An industrial relations framework and workforce model that supports a skilled and flexible workforce to effectively and efficiently deliver the Territory Government's strategic priorities.

NTPS staffing level and structure

Recommendation 5.3.1:

Implement a cap on Territory-funded FTE positions for the next three years, with growth in the cap thereafter limited to population growth.

Recommendation 5.3.2:

Implement an immediate recruitment freeze for agencies currently exceeding their expenditure budget.

Recommendation 5.3.3:

Incorporate staffing KPIs into chief executive performance agreements.

Executive staffing

Recommendation 5.3.4:

Review ECO levels and their associated remuneration structure.

Recommendation 5.3.5:

Implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review (recommendation 5.3.4 refers).

Recommendation 5.3.6:

Convert all existing ECO1 positions to SAO2/SP2 positions as soon as practicable.

NTPS wages policy

Recommendation 5.3.7:

Develop a new wages policy based on a \$1000 per annum wage increase, including a wage freeze for executives and parliamentarians.

Recommendation 5.3.8:

Rationalise awards, harmonise conditions and review entitlements across the NTPS.

Recommendation 5.3.9:

Explicitly prohibit back pay or equivalent sign-on payments under the new wages policy to encourage timely bargaining resolution.

NTPS employment framework

Recommendation 5.3.10:

Expand the current PSEMA review to include assessment of the contemporaneity and efficiency of the broader NTPS employment framework including options to reduce duplication through consolidation of tribunals and legislation.

Recommendation 5.3.11:

Move industrial relations to the Treasurer's portfolio and merge the Wages Subcommittee with the Budget Review Subcommittee.

Workforce capability and flexibility

Recommendation 5.3.12:

Establish a whole of government strategic workforce board.

Recommendation 5.3.13:

Develop a comprehensive training program to address concerns about the hollowing out of policy, administrative and technical capability across the NTPS.

Recommendation 5.3.14:

Introduce a Job Family model for corporate roles common across agencies.

Goal 4. Organisational efficiency and strategic alignment

Key points

- Given the Territory's lack of economies of scale, it is imperative that the NTPS adopts an efficient single enterprise approach to service delivery, rather than duplicating functions in a siloed manner under rigid departmental structures.
- Agency functions and activities need to be aligned to the government's strategic priorities and be delivered effectively and efficiently to make every dollar count.
- An opportunity exists to significantly improve efficiency across government through further centralisation of corporate support functions common across agencies. Similar opportunities, albeit on a smaller scale, exist for infrastructure services. Implementing change will require strong leadership and commitment from ministers and chief executives.
- The Territory Government should restructure agencies to consolidate similar/related functions and reduce duplication.
- To ensure agency expenditure is aligned to government priorities and that services are being provided efficiently, a rolling program of organisational reviews should be introduced.
- A clear message received during the interim report stakeholder engagement process was that coordination between Territory Government agencies and their service delivery partners could be improved, particularly in remote communities.
- The Territory should work with the Commonwealth and local government to improve remote service delivery coordination.
- A centralised whole of government hub for remote travel should be implemented to reduce logistical costs and improve service coordination within the Territory Government.

Goal

Resources are utilised efficiently and effectively to deliver the Territory Government's strategic priorities and promote a single enterprise mindset within the NTPS.

Context

The NTPS comprises around 21 000 FTE, with an expenditure budget of around \$7.5 billion. While the Territory Government is the largest single employer in the Territory, it is relatively small in comparison to other jurisdictions (for example, and as mentioned earlier, the entire NTPS is less than one third of the size of Queensland's Education Department).

Given the Territory's lack of economies of scale, it is imperative that the NTPS adopts an efficient single enterprise approach to service delivery, rather than duplicating functions in a siloed manner under rigid departmental structures.

It is also imperative that agency functions and activities are aligned to the Territory Government's strategic priorities and that services are being delivered effectively and efficiently (that is, making every dollar count).

An efficient organisational structure

Current situation

Setting an appropriate whole of government organisational structure, which uses the Territory's relatively small size to its advantage, is a key driver of efficient resource utilisation.

The Territory Government is largely organised under a portfolio and departmental structure. A number of corporate transactional services common to all agencies, such as payroll processing, accounts payable and accounts receivable are provided centrally by the Department of Corporate and Information Services under a whole of government shared services arrangement. In addition, some smaller agencies coordinate the provision of corporate services more broadly (including, human resources, finance, ICT support, procurement) through hub and spoke models with larger agencies. For example, the OCPE and Department of Treasury and Finance have a shared corporate services arrangement with the larger Department of the Chief Minister.

While pockets of efficiency have developed across the NTPS through hub and spoke models for corporate services, a significant level of unnecessary duplication remains due to the general tendency of individual agencies to have standalone corporate structures specific to each department. The lack of standardisation of processes, policies, reporting and ICT systems across government further hampers the efficient delivery of government services.

Similar issues exist in infrastructure management, where a number of agencies have standalone infrastructure teams that duplicate some functions provided by the Territory's infrastructure department. Repairs and maintenance budgets are managed at the individual agency level, while minor new works and capital works are generally managed centrally.

There also appear to be pockets of functional overlap across agencies, particularly regarding economic and industry development. For example, both the Department of Trade, Business and Innovation and the Department of Primary Industry and Resources seek to develop the oil and gas industry and attract private investment through various initiatives. The Territory also spreads its industry regulatory functions across a range of departments, creating potential inefficiencies and unnecessary beige tape, which could be reduced through increased vertical integration.

Addressing duplication and driving whole of government productivity improvements will require rethinking the underlying structure of the NTPS.

Proposed reforms

Corporate services

An opportunity exists to significantly improve efficiency across government through further centralisation of corporate support functions common across agencies to achieve improved scale, and standardised and streamlined processes.

The Territory has utilised a centralised shared services approach for a broad range of corporate support functions for over 20 years. While the current model focuses on transactional services, it has the potential to deliver a broader range of value-adding services through a more active central agency role.

A preliminary analysis of corporate services activities and functions that could be considered **in** or **out** of scope for reform is detailed at Table 7.

Table 7: Potential scope of services for a centralised corporate support model

In scope – transition to central model	Out of scope – stay in agencies
<ul style="list-style-type: none"> • Human Resources <ul style="list-style-type: none"> – advisory, case management, training and development, reporting • ICT <ul style="list-style-type: none"> – advisory, staff ICT support, business systems support • Procurement <ul style="list-style-type: none"> – advisory, procurement planning and processing, contract administration, reporting • Web management (technical) 	<ul style="list-style-type: none"> • Finance <ul style="list-style-type: none"> – advisory, oversight, budget development, reporting • Communications and marketing • Secretariat and ministerial liaison • Office of the CEO functions • General office services • Audit, risk and governance

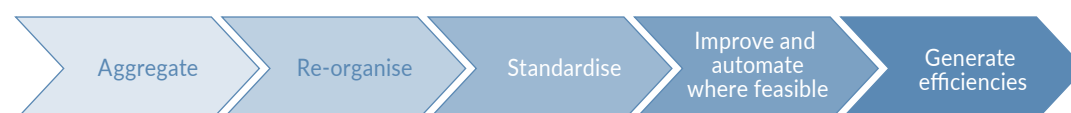
Note: infrastructure reforms are considered separately.

The proposed reform would be based on the following principles:

- the model would apply to all agencies in the general government sector (that is, excludes government owned corporations)
- agency staff in identified functions/activities would be transferred to the new central service agency from the outset, with the service delivery model refined as the reform program is progressed
- savings would be achieved over time through attrition, including reductions in senior administration and executive contract officers (targets would be developed as the reform program is progressed)
- services and policies would be standardised to drive efficiency, requiring a change management program to assist agencies to transition from customised approaches.

The potential five stage reform process is outlined at Figure 5.

Figure 5: Shared corporate services reform continuum



1. **Aggregate** – bring together functions and activities to achieve the initial centralisation into a single reporting construct. Staff to remain in-situ until co-location can be achieved, however reporting lines will need to change immediately, reinforcing the change and enabling the establishment of revised management structures. **Timing – immediate.**
2. **Re-organise** – work teams will be re-organised into revised structures to better service the client agency portfolio. Structures and models for work teams may differ to meet multiple business needs. Some savings may be realised in this stage through improved scale and right-sizing teams to the client base. **Timing – short term.**

3. **Standardise** – standardise and streamline business processes, develop standard operating procedures and management reporting, establish common forms, consolidate duplicate ICT systems. **Timing – short to medium term.**
4. **Improve and automate** – use digital solutions to automate manual processes and reduce cost. Investment in digital solutions will need to be business case driven and demonstrate a tangible return on investment to be considered. **Timing – medium to long term.**
5. **Generate efficiencies** – savings targets will need to be set and tested throughout the reform continuum. Work undertaken in stages 1-4 will inform the development and refinement of savings targets. **Timing – long term.**

The reform will require absolute commitment from ministers and chief executives and rigorous project management. This reform is a major initiative and needs to be staffed and prioritised accordingly. A potential governance model is provided at Figure 6, comprising three project work streams within a Corporate Services Reform Program.

Figure 6: Corporate services reform governance structure



The roles of the individual project work streams would broadly comprise:

- **Implementation team** – highly capable core delivery team to provide leadership and drive implementation at the whole of government level and across all agencies
- **Logistics team** – a time-limited team to coordinate transitioning staff into the new construct and provide operational logistical management throughout the aggregation and reorganisation phases
- **Process improvement team** – support team to drive the standardisation of processes and development of standard operating procedures and management reporting, and investigate automation opportunities.

The establishment of outposted client liaison roles, at senior levels, will be necessary to provide the interface, at both an operational and strategic level, between agency chief executives and the central agency. These roles will be particularly important over the service transitions and settling-in periods.

While financial services are not proposed to be further centralised as part of this reform, consideration should be given to ensuring chief financial officers are integrated into agencies' executive leadership structures to support a sustained focus on budget repair and disciplined financial management.

While it is difficult to quantify the potential savings associated with corporate services reforms at this stage, achieving efficiencies of five per cent could save in the order of \$10 million per annum.

Infrastructure services

A number of agencies have dedicated infrastructure teams, although only two (the Department of Infrastructure, Planning and Logistics and the Department of Local Government, Housing and Community Development) actually deliver infrastructure works. Similar to corporate services, there are opportunities to reduce duplication across government in the delivery of infrastructure services through further centralisation of agency infrastructure teams into the Department of Infrastructure, Planning and Logistics.

The proposed model for the next phase of corporate services centralisation could be adopted (i.e. aggregate, reorganise, standardise, improve and automate, and generate efficiencies), which would also entail centrally managing repairs and maintenance funding (similar to capital works funding). This would provide the government with concentrated expertise and increased capacity and flexibility in managing its infrastructure priorities.

Functional alignment

To reduce functional overlap across the NTPS and improve regulatory coordination, it is recommended that the Territory Government restructure agencies to consolidate similar/related functions and reduce duplication. In particular, consideration should be given to consolidating economic and industry development functions within a Department of Industry, which would be responsible for:

- making the Territory a globally competitive and attractive investment destination
- driving an outcome rather than process focus for project approvals across the NTPS
- boosting productivity and innovation in primary industries
- increasing jobs through fostering economic development (urban and remote)

- supporting small business.

The proposed approach has been successfully adopted in most other jurisdictions, with New South Wales providing a potentially useful model for the Territory, and may also provide some efficiencies through the amalgamation of smaller agencies.

Key issues

Corporate services

The NTPS has not undertaken a major reform of its back office corporate support functions in agencies since the formation of the Department of Corporate and Information Services in 1998. The scale of reform proposed in this report, including corporate, infrastructure and industry development services, requires a reorientation of expectations across government and sustained ministerial and chief executive sponsorship of the new model.

The reform will have significant human resource implications, requiring strong leadership at both the executive and ministerial level as well as clear and timely communication to affected stakeholders. The initial aggregation phase should occur as soon as practicable following publication of this report to harness reform momentum.

Standardisation and harmonisation of policies, reporting and procedures will inevitably reduce the level of tailored offerings available for specific agencies. It is important to acknowledge that this is a necessary trade-off for improved efficiency, however, processes will need to be established to ensure service delivery effectiveness is not unintentionally impacted and unintended, perverse consequences are avoided.

Infrastructure services

Due to the complexities of remote housing and the size of the Territory Government's remote housing program, it may be appropriate that this continues to be managed by the Department of Local Government, Housing and Community Development, in close collaboration with the Department of Infrastructure, Planning and Logistics. However, the remainder of government's infrastructure services could be restructured relatively quickly.

Functional alignment

While machinery of government changes can be enacted reasonably quickly, it will be important that resources are rebalanced towards areas of highest priority to generate efficiencies rather than maintaining internal silos reflecting previous structures.

Recommendations

- 5.4.1 Implement the next phase of shared services reform by further centralising corporate services in the Department of Corporate and Information Services.
- 5.4.2 Further centralise infrastructure planning, management and delivery into the Department of Infrastructure, Planning and Logistics, including repairs and maintenance budgets.
- 5.4.3 Restructure agencies to consolidate similar/related functions and reduce duplication.

Organisational strategic alignment and efficiency

Current situation

The majority of agency funding across budget years is adjusted by annual indexation for cost and demand growth, less any efficiency dividends, with budget papers and related materials generally focusing on new initiatives and policies.

New initiatives and policy changes typically only account for a small fraction of total expenditure in each budget, leaving up to 99 per cent of government spending unscrutinised outside of any internal agency reviews. As a result, almost all expenditure is simply rolled over from one year to the next with little assessment of effectiveness, efficiency, and alignment to government priorities.

Community expectations of high standard and improving public services and limited public sector resources compel governments to allocate resources carefully and effectively. Most jurisdictions have a rolling program of organisational reviews to:

- assess the alignment of agency expenditure with the strategic priorities of the government of the day
- determine whether agencies are operating effectively and efficiently
- ensure that the public sector achieves optimal outcomes within its fiscal constraints.

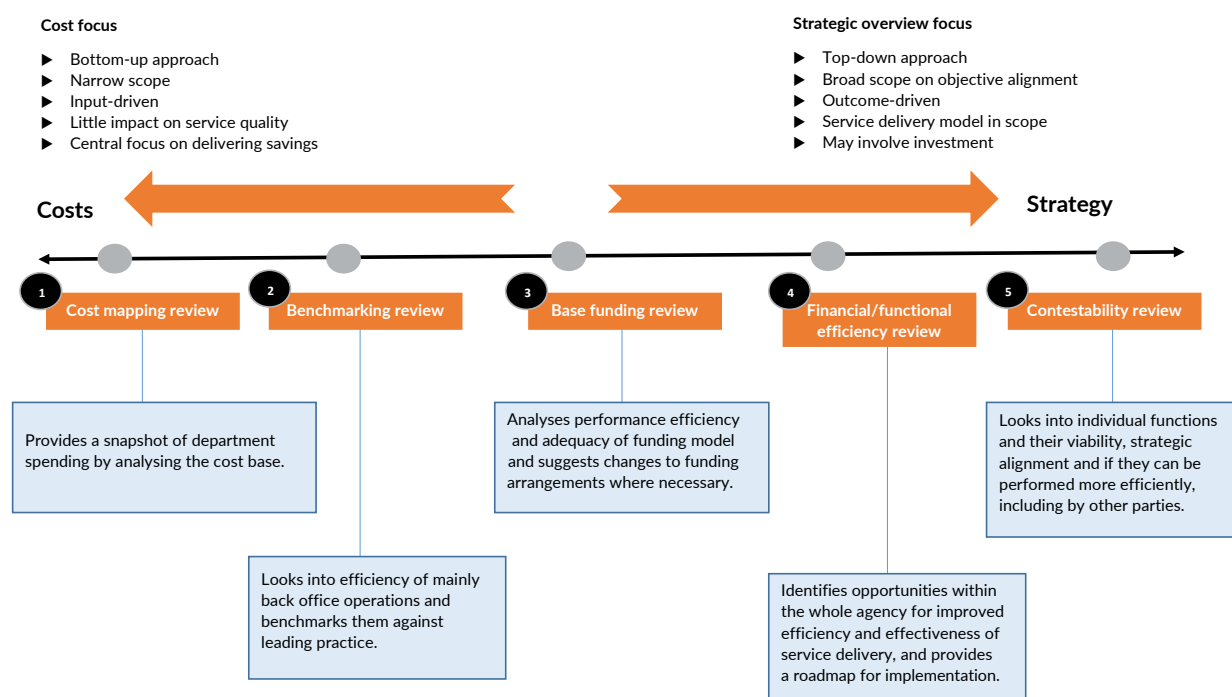
Figure 7 provides a summary of the general types of organisational review currently undertaken by different jurisdictions. The approaches vary in scope, governance model, objective and methodology, and range from a basic cost-mapping exercise through to the more comprehensive and strategic contestability review.

A key element to effective organisational reviews is their authorising environment and governance model. In the absence of a whole of government framework, a number of Territory Government agencies have undertaken their own internal reviews in recent years, generally with a focus on capability and linked to the development of new strategic plans. These reviews were largely instigated by triggers such as departmental inefficiency or overspend against budget, with differing outcomes based on governance models and authorising environments.

There has been limited sharing across government of the terms of reference, findings and outcomes of these reviews making it difficult to identify whole of government issues. Moreover, a general lack of alignment with the annual budget process has meant the outcomes of the reviews were not used to inform budget focus areas, planning and funding decisions.

Figure 7: Organisational review

A cost-focused review investigates the efficiency of resource utilisation, whereas a strategy-focused review takes a more holistic view by looking towards how government's strategic priorities can be most effectively delivered.



Proposed reforms

To ensure agency expenditure is aligned to government priorities and that services are being provided efficiently, it is recommended that the Territory Government implement a rolling program of organisational reviews.

While these reviews can take many forms, the function and efficiency reviews utilised by the Commonwealth Government for reviewing Australian Public Service departments provides a useful example (see boxed information below).

Summary of the Commonwealth's Efficiency through Contestability Programme¹⁹

Portfolio stocktakes

Portfolio stocktakes are undertaken at a portfolio level (led by the portfolio department in consultation with its portfolio entities) and:

- identify the functions undertaken by entities within the portfolio
- consider if government and specifically the involved entities should provide the function
- consider how to improve the efficiency of the function, including whether there are any other organisations (within or outside of government) that could provide each function (in whole or in part)
- consider whether there are any reasons why other organisations could not deliver functions more efficiently, or if there are any other impediments (such as cultural or security considerations)
- propose functions that may benefit from a contestability review.

¹⁹ Commonwealth of Australia, Contestability Programme Guidelines, 2015, accessed February 2019 (<https://www.finance.gov.au/resource-management/governance/contestability/resources/#guidelines>)

Functional and efficiency reviews

Functional and efficiency reviews assess specific entities and consider:

- the role of the entity and whether its current functions align with the government's forward priorities and policy commitments
- any barriers affecting the entity from achieving its intended outcomes and, where relevant, propose solutions to address these concerns
- the feasibility and efficiency of alternative approaches to address the government's forward priorities including identifying the benefits, costs, risks and any other relevant considerations (including legal, regulatory and cultural considerations)
- the proposed transition path to implement preferred alternatives.

Contestability reviews

Consider whether functions could best be delivered through alternative means by assessing:

- the objective of the function, how it is currently provided and the associated costs
- what alternatives are available (including provision by other organisations and options to improve efficiency with the current provider)
- the costs, benefits, risks and any other considerations for each alternative arrangement.

An examination of review models used across jurisdictions more broadly indicates that leading practice organisational review frameworks include six key elements.

1. Maintaining a focus on efficiency
 - Benchmark activities against leading practice to reveal inefficiencies and improvement opportunities. Conduct a cost-benefit analysis on each opportunity.
2. Strategic alignment
 - Measure the strength of alignment between agency activities and government priorities.
3. Effectiveness measures
 - Review effectiveness of the public service delivery model as well as support functions, and utilise performance metrics to improve service delivery and promote a culture of innovation and improvement.
4. Independence
 - Involve the organisation under review and central agencies to support comprehensive and well informed analysis. Include an independent party in the governance model to challenge assumptions and ensure that all relevant information is on the table.
5. Agency buy in
 - A review should be done 'with' the agency not 'to' the agency to promote effective implementation. Agency cooperation should be incentivised, for example, by allowing agencies to allocate a percentage share of achieved savings to new initiatives that are aligned to government priorities for their portfolio area.

6. Sustainable change

- A review should be future-focused to support developing long-term capacity and improve service delivery. A joint commitment from central agencies and departments to monitor implementation should be fostered.

By drawing from the above six elements, and the Commonwealth's functional and efficiency review framework, the Territory Government can implement a rolling program of organisational reviews focused on enhancing both service delivery efficiency and strategic alignment. This will support budget repair by identifying both opportunities to maintain existing service levels at a lower cost and activities that are no longer aligned to the government's strategic priorities.

The annual schedule of organisational reviews should be determined by the Budget Review Subcommittee as part of the budget development process, with the outcomes of organisational review presented to Cabinet for consideration.

Key issues

Organisational reviews are most likely to deliver sustainable benefits when they are delivered with the full engagement and expertise of the agency under review. Government can incentivise departmental engagement by allowing a proportion of the savings achieved through a review to be reallocated to new initiatives in the portfolio agency, aligned with government priorities.

Departmental engagement can also be driven through a strong authorising environment. This requires sustained ministerial and senior executive support.

Recommendations

5.4.4 Implement a rolling program of organisational reviews.

5.4.5 The annual schedule of reviews should be determined by the Budget Review Subcommittee as part of the budget development process.

Remote service coordination

Current situation

Effective service delivery coordination enhances the quality and efficacy of services through reduced duplication, increased networking and collaboration, shared problem solving and working towards a common goal.

A clear message received by the panel during the interim report stakeholder engagement process was that Territory Government agencies and their service delivery partners (for example, Commonwealth, local government bodies and community organisations) could be better coordinated in delivering services, particularly in remote communities.

A number of participants referred to instances of multiple agencies visiting the same community in a relatively short period without coordinating travel resulting in unnecessary flights and fragmented community engagement. A recent Productivity Commission report also noted the inefficiencies created by poor coordination of remote service delivery²⁰.

²⁰ Productivity Commission, *Reforms to Human Services Final Report*, 2018, accessed February 2019 (<https://www.pc.gov.au/inquiries/completed/human-services/reforms#report>)

For example a remote community in Central Australia of about 400 people received social and emotional wellbeing programs from 16 separate providers, mostly on a fly-in fly-out or drive-in drive-out basis²¹. Similarly, the Royal Commission into the Protection and Detention of Children in the Northern Territory found that family and children's services lacked coordination between the Territory and Commonwealth governments, and within each government²².

Service provision in remote Aboriginal communities is challenging, expensive and not consistent²³. The Territory Government generally provides core services such as education, health, police, housing and utilities from a major community base, which services smaller surrounding communities, although in some cases there is direct service provision in smaller communities (for example, schools, visiting health services, and police posts).

The Territory Government has made efforts to improve remote service delivery (such as encouraging local service delivery, implementing five-year funding agreements and developing websites such as Bushready²⁴ and Bushtel²⁵). However, there is likely to be scope for further improvements and efficiencies given the disparate number of services offered at different levels to ostensibly similar communities and that funding levels often reflect an accumulation of historical decisions.

The Territory has previously sought to consolidate services into a more efficient hub and spoke model for remote service provision, however, these reforms were never fully implemented.

Stakeholders also raised government-funded remote travel (particularly medical staff and patient travel) as an area ripe for efficiency improvement, with limited coordination occurring between medical outreach services, medical retrievals (Care Flight and St John Ambulance) and the Patient Assistance Travel Scheme despite each dealing with overlapping patients and communities. Inefficient remote travel arrangements appear to be an issue across the NTPS.

Proposed reforms

While a review of the efficiency of remote service provision in the Territory is beyond the remit of this report, based on stakeholder feedback, there appears to be significant scope to improve efficiency through better coordination of services, particularly between the three tiers of government. It is recommended that the Department of the Chief Minister work with the Commonwealth and local government to improve the coordination of service provision in remote communities across the Territory and reduce areas of duplication. This may also entail expanded use of hub and spoke models to improve service delivery consistency and efficiency in remote communities.

21 Aboriginal Medical Services Alliance Northern Territory (AMSANT), Response to Productivity Commission's Reforms to Human Services: Issues Paper, 2017, accessed February 2019 (<https://www.pc.gov.au/inquiries/completed/human-services/reforms/submissions>)

22 Royal Commission and Board of Inquiry into the Protection and Detention of Children in the Northern Territory, Final Report, Volume 1, 2017, accessed February 2019 (<https://www.royalcommission.gov.au/royal-commission-detention-and-protection-children-northern-territory>)

23 Productivity Commission, Reforms to Human Services Final Report, 2018, accessed February 2019 (<https://www.pc.gov.au/inquiries/completed/human-services/reforms#report>)

24 <http://www.bushready.nt.gov.au/>

25 <https://bushtel.nt.gov.au/#!/home>

There is an obvious need for better logistical coordination between Territory Government agencies in servicing remote communities. To drive a more coordinated approach to community engagement and reduce travel and accommodation costs, it is recommended that the Territory Government implement a centralised whole of government hub for remote travel.

A centralised travel hub would require the Territory Government to develop systems to coordinate government-funded travel to remote communities, which could be achieved through:

- advanced scheduling (where possible, agencies would submit proposed travel schedules for the next 30-90 days, noting requirements may change)
- triaging travel to determine urgency and allow for batching where appropriate
- publishing the details for booked charter flights and the number of seats available in a central location.

Given the complexities involved, the centralised travel hub may initially need to focus on coordinating health-related travel (including staff and patient travel and coordination with St John Ambulance, Careflight and the Royal Flying Doctor Service). However, it should be applied across government more broadly as soon as feasible.

Key issues

The Royal Commission into the Protection and Detention of Children in the Northern Territory made two recommendations that may overlap with the proposed coordination reforms including:

- Recommendation 6.1: The Productivity Commission undertake a review and audit of Commonwealth expenditure in the Northern Territory in the area of family and children's services relevant to the prevention of harm to children. The review should address co-ordination of programs, funding agreements and selection of service providers, service outputs and evaluations.
- Recommendation 39.5: Establish a joint Commonwealth-Territory Coordinated Funding Framework, setting policies for an agreed approach to the planning, funding and delivery of services for families and children in the Northern Territory.

The proposal to work with the Commonwealth and local government to improve remote service delivery coordination should build on work done to date on the above recommendations from the Royal Commission and be applied to remote government service delivery more broadly.

Coordinating remote travel via a central hub will take time to achieve and likely require upfront ICT investment. This should be managed through the Territory's ICT Governance Framework.

Recommendations

- 5.4.6 Work with the Commonwealth and local government to improve remote service delivery coordination.
- 5.4.7 Develop a centralised whole of government remote travel hub.

Reform map 4: Organisational efficiency and strategic alignment

Resources are utilised efficiently and effectively to deliver government's strategic priorities and promote a single enterprise mindset within the NTPS.

An efficient organisational structure

Recommendation 5.4.1:

Implement the next phase of shared services reform by further centralising corporate services in the Department of Corporate and Information Services.

Recommendation

5.4.2: Further centralise infrastructure planning, management and delivery into the Department of Infrastructure, Planning and Logistics, including repairs and maintenance budgets.

Recommendation 5.4.3:

Restructure agencies to consolidate similar/related functions and reduce duplication.

Organisational strategic alignment and efficiency

Recommendation 5.4.4:

Implement a rolling program of organisational reviews.

Recommendation 5.4.5: The annual schedule of reviews should be determined by the Budget Review Subcommittee as part of the Budget development process.

Remote service coordination

Recommendation 5.4.6: Work with the Commonwealth and local government to improve remote service delivery coordination.

Recommendation 5.4.7:

Develop a centralised whole of government remote travel hub.

Goal 5. Evidence-based decision-making

Key points

- The Territory needs a robust whole-of-government program evaluation framework to support consistent and regular assessment of agency activities to determine their effectiveness and efficiency.
- A rolling schedule of evaluation of existing programs should be developed to ensure that evaluation is not limited to new programs.
- To avoid unnecessary red/green/beige tape, the Territory should move away from a set-and-forget approach to regulation and instead view regulations as public assets that need to be actively maintained and improved.
- Sunset clauses should be used for new policy and regulatory initiatives.
- The Territory should operationalise the Project Development Framework across government, including mandating that all capital projects over \$30 million be progressed under the framework.
- Increasing the level of Commonwealth capital investment in the Territory will be an important element in addressing the Territory's infrastructure deficit in a fiscally sustainable manner.
- It is critical that any additional Commonwealth investment to address the Territory's infrastructure deficit be excluded from the Commonwealth Grants Commission process to avoid offsetting reductions in the Territory's GST revenue.

Goal

A whole of government program and regulatory evaluation framework that drives a culture of continuous improvement across the NTPS and supports evidence-based decision-making.

Context

Evidence-based policy prioritises rigorous research findings, data, analytics and evaluation of new innovations above anecdotes, ideology, marketing and inertia around the status quo²⁶. It is focused on effective interventions and efficient use of resources, which encourage transparency, accountability and better use of public funds.

An evidence-based approach is particularly useful for the complex challenges facing the Territory as it can help government recognise the trade-offs between competing priorities. While policy makers sometimes need to make decisions rapidly with limited time to gather information, an evidence-based approach uses the best evidence available at the time, monitors the results (including unintended consequences) and adjusts the approach where required.

Evidence-based policy making can also help inform public debate on complex issues and can be used as a communication tool to bring stakeholders along and build community consensus for reform.

²⁶ Evidence-Based Policymaking Collaborative, Principles of evidence-based policy making, 2016, accessed February 2019 (<https://www.evidencecollaborative.org/principles-evidence-based-policy-making>)

Evidence-based policy could be improved across the Territory by introducing a more structured approach to program and regulatory evaluation, and operationalising the Project Development Framework for significant government capital projects.

Program evaluation

Current situation

Territory Government agencies deliver and support a variety of activities that aim to achieve specific outcomes for a diverse range of clients and client groups. These activities, commonly referred to as programs, vary in size and structure and may be delivered directly by government agencies or indirectly through funding to service delivery partners such as non-government organisations (NGOs).

In comparison to other jurisdictions, the Territory lacks a robust whole of government program evaluation framework to support consistent and regular assessment of agency activities to determine their effectiveness and efficiency. Additionally, the current policy development process utilised by the Territory Government (as reflected in the Cabinet submission template) does not mandate the inclusion of an evaluation process for new initiatives.

The absence of a whole of government approach means that where evaluations do occur the standard is inconsistent. Additionally, the lack of evaluation requirements for new programs makes objective assessment against predefined key performance indicators difficult.

While agency performance is monitored at a high level through a number of instruments including budget papers, annual reports, Treasurer's annual financial reports, and Auditor-General's reports, these primarily review financial performance and compliance with legislation rather than assess the effectiveness, efficiency and strategic alignment of individual programs.

Without regular and robust evaluation, there is a high risk that ineffective and inefficient programs will continue to utilise the scarce resources available, hampering Government's ability to deliver its strategic priorities and improve outcomes for Territorians.

Proposed reforms

Most jurisdictions have program evaluation guidelines to provide an evidence base to drive innovation and efficiency in the delivery of government services. The Territory Government should adopt this approach as a matter of urgency²⁷.

Developing and implementing a program evaluation framework will embed a culture of evidence-based policy across the Territory Government. Overall, the framework should strengthen efficiency, effectiveness and accountability across government, enable shared learnings and promote best practice policy design and program delivery. The framework should be designed to ascertain whether:

- a program is achieving the desired outcomes

²⁷ The Department of Treasury and Finance is in the early stages of establishing a program evaluation unit that will have carriage of the development of a whole of government program evaluation framework.

- the outcomes remain aligned with Government priorities
- the resources allocated to the program are being used effectively and efficiently
- changes to program design or resource allocation could improve the outcomes.

The evaluation framework should be progressively developed to suit the needs and resources of the Territory (that is, there is no one-size-fits-all solution). The design of the framework should build on existing approaches to evaluation in the Territory and be informed by national and global policy guidance documents, consultation with relevant stakeholders and lessons learned from other Australian evaluation units, including audit findings. At a minimum, an effective program evaluation framework should:

- be fully integrated into the policy and budget development process, necessitating changes to the Cabinet submission template and Cabinet Handbook
- create a system of incentives and penalties to ensure the results of the evaluations are used to inform decision-making and improve future program design
- establish a tiered system of evaluations so an evaluation is proportionate to the cost and complexity of a program
- create clear expectations for the development of new programs, for example, all new initiatives should:
 - consider previous evaluations as part of the new policy/program design to ensure continuous learning and improvement
 - plan for evaluation at the initial policy/program design stage and identify key performance indicators prior to program commencement
 - identify data sources to monitor program effectiveness, including baseline data
 - include sunset clauses so ongoing funding is linked to evaluation outcomes
 - include provision for evaluation as part of the funding request.

The whole of government program evaluation framework should be used as a basis for training agency staff in best practice policy and program design. The framework and associated documents should be published online and be publicly accessible.

A rolling schedule of evaluation of existing programs

A rolling schedule of evaluation of existing programs will provide a structured approach to evaluation and ensure that evaluation is not limited to new programs, which represent a small fraction of the overall budget. The schedule should be managed centrally and be approved by the Budget Review Subcommittee, with a focus on strategic priorities.

The evaluations should specify measurable criteria and milestones for determining the success of the program, focus on the key issues that will inform government decision-making, use a systematic and evidence-based approach to assess performance, and be robust, timely and relevant to decision makers and stakeholders.

It may be in the public interest for agencies to publish their evaluation findings, either in full or a summary of key findings. This allows lessons learned to be shared and reduces duplication and the potential to repeat mistakes. Rigorously evaluating programs will also build an evidence base of 'what works' in the Territory's context.

Sunset clauses

Programs subject to sunset clauses are funded for a finite period, with the decision for further funding (either wholly or in part) informed by an independent evaluation.

Sunset clauses are used in other jurisdictions, with Western Australia applying sunset clauses to all new programs (or extensions to existing programs) that impact the net operating balance by \$5 million or more in any one year. In Western Australia, continuation of the program is subject to an evaluation of the program and endorsement by the Economic and Expenditure Reform Committee and Cabinet. A similar approach should be adopted by the Territory Government, with consideration of the relevant threshold for the Territory given its smaller size in comparison to Western Australia.

Behavioural economics

Behavioural economics relates to the impact of psychology on the economic decision-making processes of individuals and institutions. A number of jurisdictions use behavioural economics in policy formation to help improve the design and delivery of public policy by 'nudging' individuals and institutions in the desired direction. This is achieved by incorporating decision-making psychology into policy design to increase its effectiveness. For example, the New South Wales Government has used behavioural economics to redesign fine notices, resulting in a 3.1 per cent increase in on-time payment, over \$1 million of additional revenue and nearly 9000 fewer lost licenses and vehicle suspensions²⁸.

While some Territory agencies have started using behavioural economics, there is significant scope to increase the Territory's behavioural economics capability with a view to increasing the effectiveness of policy making through achieving better bang for buck.

Given the Territory's small size and fiscal circumstances, the most appropriate approach would be to foster the development of behavioural economics capability across the NTPS with a focus on adopting proven approaches from other jurisdictions. The program evaluation unit in the Department of Treasury and Finance could monitor developments in other jurisdictions and communicate pertinent findings to the relevant agency as well linking learnings into the program evaluation process.

Key issues

These reforms are a departure from current practice in many agencies and will require cultural change across the NTPS. The proposed Program Evaluation Framework and associated materials will need to include change management processes to support the transition. The reforms will complement recommendations 5.4.4 and 5.4.5 by providing a more granular analysis of agency performance at the program rather than functional level.

Program evaluation reforms tend to be pursued most vigorously in times of fiscal pressure to improve performance in the public sector²⁹. However, it should be clearly understood that it takes sustained effort over a number of years to achieve an efficient monitoring and evaluation system³⁰.

28 New South Wales Government, Department of Premier and Cabinet, Behavioural Insights page, accessed February 2019 (<https://bi.dpc.nsw.gov.au/projects/increasing-on-time-payment-of-fines/>)

29 Lopez-Acevedo, G., Krause, P., and Mackay, K., eds., *Building better policies: the nuts and bolts of monitoring and evaluation systems*, 2012, World Bank, accessed February 2019 (<http://documents.worldbank.org/curated/en/680771468183894133/Building-better-policies-the-nuts-and-bolts-of-monitoring-and-evaluation-systems>)

30 McKay, Keith. 2007. *How to Build M&E Systems to Support Better Government*. Washington, DC: World Bank.

There may also be resistance from agencies to external program reviews, particularly if these reviews are perceived to be an expenditure reduction exercise. To minimise such concerns, the evaluations should ideally be independent and the proposed process should be collaborative rather than a central agency imposed approach.

Program evaluation will require a resource commitment from agencies that balances the costs and likely outcomes. There is a risk the costs of implementing a whole of government evaluation framework could exceed the efficiencies created, however the risk can be mitigated through:

- a well-designed program evaluation framework that is appropriate for the Territory
- a comprehensive communication strategy and appropriate training to guide the use of the Program Evaluation Framework and ensure the results are appropriately used
- an independent evaluation of the whole of government framework within three years of establishment.

Publicly releasing evaluation outcomes could increase trust in government by informing the community of how taxpayer funds are being used and demonstrating a continuous commitment to improving services and outcomes. However, this will require clear communication strategies and will need to be considered on a case-by-case basis.

There are also budgetary risks associated with sunset clauses for government programs. While program-specific resources should not be allocated to agencies beyond the sunset clause date to incentivise compliance, it is likely that a level of ongoing funding will need to be made available to continue successful programs. To ensure the forward estimates make an appropriate provision for this eventuality, resources should be quarantined in a central pool so whole of government numbers present a fair estimate of likely ongoing resource needs.

Recommendations

- 5.5.1 Develop a whole of government program evaluation framework.
- 5.5.2 Update the Cabinet submission template to include program evaluation requirements.
- 5.5.3 Develop an annual schedule of evaluation of existing programs for approval by the Budget Review Subcommittee.
- 5.5.4 Mandate the use of sunset clauses in new programs.
- 5.5.5 Foster the development of behavioural economics capability across the NTPS with a focus on adopting proven approaches from other jurisdictions.

Regulatory evaluation

Current situation

Regulation is a tool used to achieve specific social, environmental and economic outcomes that would otherwise not be achieved within the market. While regulation is necessary, it can impede private sector activity and therefore needs to be regularly reviewed to ensure the benefits outweigh the costs and that the regulation is operating as efficiently as possible and as intended.

During the interim report stakeholder engagement process, a number of participants raised the need to reduce red, green and beige tape³¹ to get private investment flowing into the Territory. Land tenure was also raised as a significant barrier to private investment but is beyond the scope of this report given it predominantly relates to Commonwealth legislation.

The Territory Government is currently undertaking a range of actions and processes to reduce red tape and the Territory's regulation-making process requires all new regulatory proposals to be assessed under the Northern Territory Regulation Making Framework to ensure business-related regulation is efficient and effective with minimal imposts on businesses and the community.

While the Regulation Making Framework was updated in 2017 with some of the Productivity Commission's identified best practice principles in regulatory analysis, there is currently no requirement for regulatory sunset clauses or evaluations. In addition, there is no whole of government process for reviewing the stock of existing regulation.

The absence of a structured regulatory monitoring system creates a risk that private investment is not maximised due to a fragmented approach to regulation.

Proposed reform

One of the key actions from the Economic Development Framework is to progress a comprehensive, balanced and accountable regulatory reform agenda to make the Territory a globally competitive destination for investment. The Territory Government committed to publicly report on the progress towards delivering these actions and the Cutting Red Tape website sets out the Territory Government's latest reforms³².

Two potential mechanisms for further improving the efficiency and effectiveness of the Territory's regulatory environment are regulatory stewardship and sunset clauses.

Regulatory stewardship

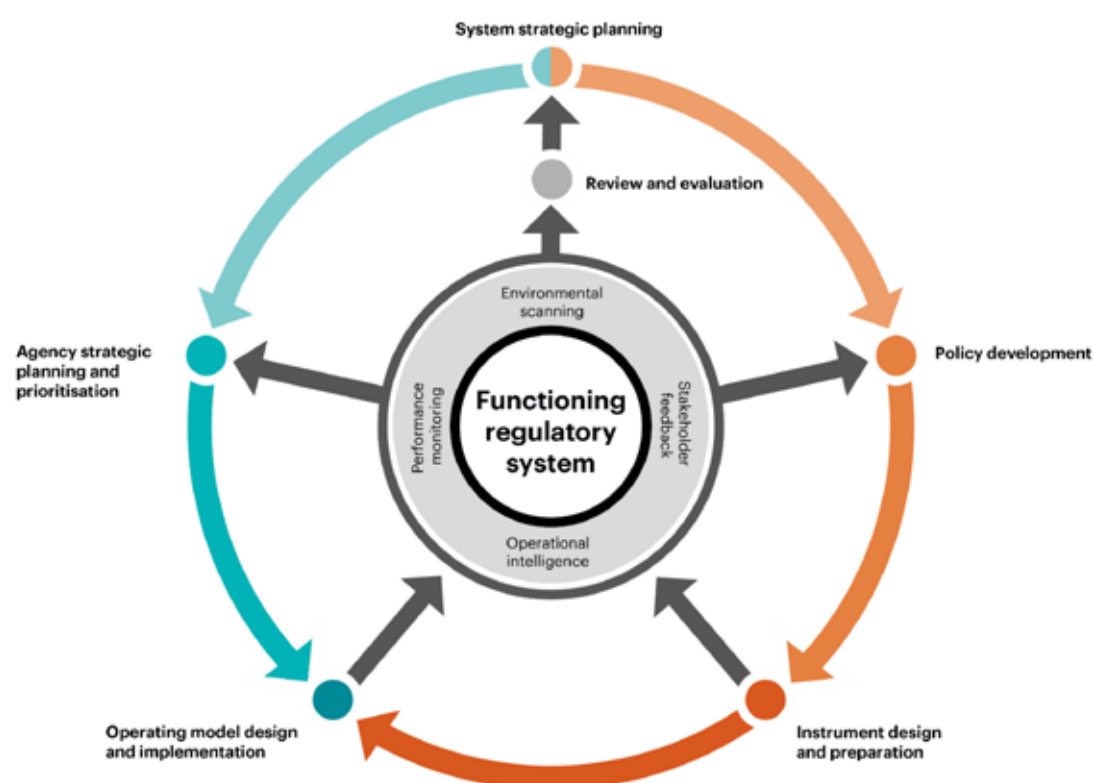
Regulatory stewardship moves away from a set-and-forget approach to regulation and instead views regulations as public assets that need to be actively maintained and improved. This approach makes chief executives more accountable for the total regulatory burden created by their agencies.

³¹ Red tape refers to processes or requirements of government that impose a burden on business, community organisations or individuals. Green tape refers to regulatory burden relating to environmental requirements. Beige tape refers to the bureaucratic decision-making process.

³² <http://cuttingredtape.nt.gov.au/>

The New Zealand Government implemented regulatory stewardship in 2013 and recent reviews have recommended Australian jurisdictions should follow this approach³³. Regulatory stewardship is usually introduced as a statutory responsibility to ensure a sustained focus in an environment of competing priorities. Figure 8 outlines New Zealand's regulatory cycle.

Figure 8: New Zealand's regulatory cycle



Source: New Zealand Government, *Building Effective Regulatory Institutions and Practices*, 2017

In recognition that even the best regulations decay over time³⁴, it is recommended that the Territory adopts a regulatory stewardship approach, tailored to the Territory context, which enables regular evaluation of the Territory's existing stock of regulation. This should be supported by updating the Cabinet submission template to include an evaluation section, which would apply to new regulations that have an impact on the cost of doing business in the Territory.

It is also recommended that agencies develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty. Performance against approved timeframes should be publicly reported through annual reports and budget papers.

33 For example, in New South Wales (Independent Review of the NSW Regulatory Policy Framework, 2017, accessed February 2019, (<https://www.dpc.nsw.gov.au/updates/2018/02/22/independent-review-of-the-nsw-regulatory-policy-framework/>)) and Western Australia (Service Priority Review, Blueprint for Reform, 2017, accessed February 2019, (<https://www.dpc.wa.gov.au/ProjectsandSpecialEvents/ServicePriorityReview/Pages/Final-Report.aspx>))

34 McCollough, P, Submission to the Australian Public Service Review on Regulatory Stewardship, 2018, accessed February 2019, (<https://contribute.apsreview.gov.au/submissions>)

Sunset clauses

Similar to Western Australia's practice (discussed above) of applying sunset clauses to new program expenditures, several jurisdictions in Australia use sunset clauses to ensure new regulations remain relevant by requiring a review of the regulation after a nominated time. For example, in Victoria, a Regulatory Impact Statement for sunseting regulations needs to analyse the problem as if the existing regulations did not apply and consider changes in technology, community expectations and business practices³⁵. Reviews are also an opportunity to review fee structures to ensure they remain appropriate.

It is recommended that the Territory Government apply sunset clauses to all new regulation, under a similar approach to the proposed program evaluation reforms (that is, predefined key performance indicators, allowance for evaluation costs, etc).

Key issues

Although regulatory stewardship has been well received in New Zealand, it remains a relatively new approach and will require agencies to prioritise resources towards this activity. Given the significant financial pressures facing agencies, consideration could be given to a gradual approach to regulatory stewardship. However, this will need to be weighed against the importance of attracting private investment to the Territory to stimulate economic growth.

It is important that any decision to reduce the regulatory burden clearly communicates the trade-offs between achieving burden reduction and other policy outcomes. This allows stakeholders to understand and comment on these trade-offs where they exist³⁶. The focus should not be on the quantity of regulation but whether the regulation continues to be efficient and fit-for-purpose.

Fundamental to the effectiveness of regulatory stewardship and sunset clauses, is a change in view of regulation from a burden to an asset.

Recommendations

- 5.5.6 Develop a process to ensure new and existing business-related regulations are actively maintained and improved through a regulatory stewardship model.
- 5.5.7 Update the Cabinet submission template to include regulation evaluation requirements.
- 5.5.8 Develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty.
- 5.5.9 Publicly report actual performance against approved regulatory decision-making processes timeframes through annual reports and budget papers.
- 5.5.10 Mandate the use of sunset clauses in new regulations that affect the cost of doing business in the Territory.

35 Commissioner for Better Regulation, Victorian Guide to Regulation, 2016, accessed February 2019, (<http://www.betterregulation.vic.gov.au/Guidance-and-Resources>)

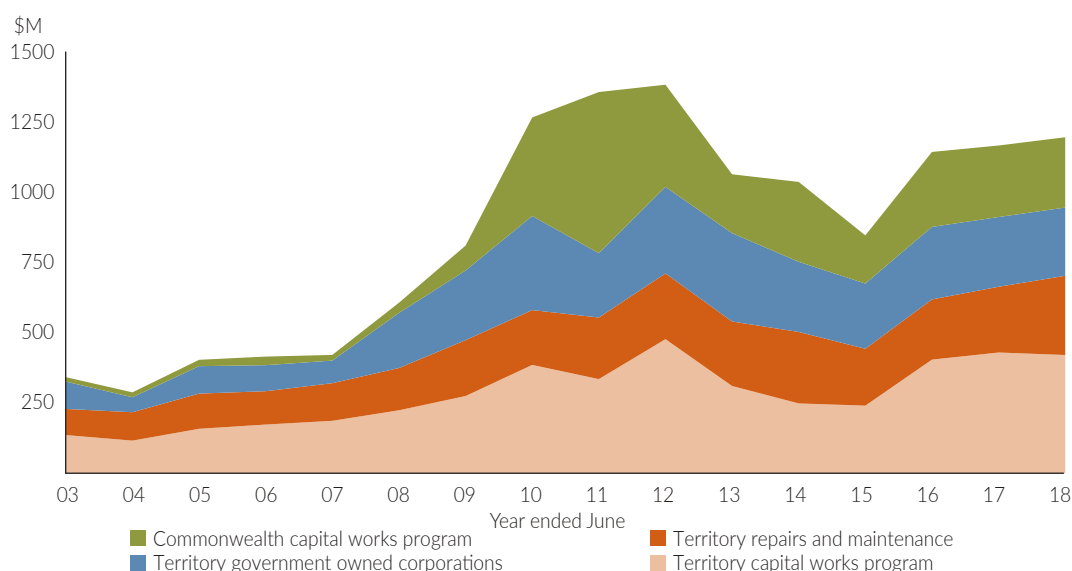
36 Commissioner for Better Regulation, Victorian Guide to Regulation, 2016, accessed February 2019, (<http://www.betterregulation.vic.gov.au/Guidance-and-Resources>)

Capital investment

Current situation

The Territory's infrastructure expenditure³⁷ has averaged around \$860 million per annum since 2002-03, funded primarily by debt issued by the Territory Government (54 per cent), with government owned corporations contributing 24 per cent and the Commonwealth contributing around 22 per cent (Chart 27).

Chart 27: Infrastructure investment over time



Source: Department of Treasury and Finance

Government capital investment in the Territory increased rapidly following the global financial crisis, driven by increased Commonwealth funding (for example, Strategic Indigenous Housing and Infrastructure Program and the Nation Building and Jobs Plan).

The level of Territory Government investment also grew rapidly over the decade, with the capital works program used to stimulate the local economy during a brief lull in economic conditions prior to the commencement of the Ichthys project and again following the completion of the Ichthys project's construction phase. Major Territory Government stimulus programs³⁸ in recent years have included:

- Building the Territory (\$126 million over three years from 2015-16), funded by proceeds from the sale of the Territory Insurance Office
- Boosting our Economy (\$98 million over three years from 2015-16), funded by proceeds from the long-term lease of the Port of Darwin
- economic stimulus package (\$236 million in 2017-18), partially funded by proceeds from the long-term lease of the Port of Darwin
- Turbocharging Tourism (capital elements) and shovel-ready stimulus programs (\$181 million over three years from 2017-18)
- public housing investment stimulus program (\$100 million in 2018-19).

³⁷ Includes capital works, minor new works and repairs and maintenance expenditure but excludes capital grants and infrastructure-related expenses.

³⁸ Some elements of these programs are not reflected in Chart 27 (e.g. capital grants).

Given the Territory's fiscal position and outlook, infrastructure investment will be fully funded by borrowing for the foreseeable future. Consequently, it is crucial that this investment is targeted towards infrastructure that provides long-term economic returns to the Territory and is prioritised against clearly articulated outcomes. Identifying the strategic need for a capital project, developing a robust evidence-based business case and determining the project's priority against competing demands are the crucial first stages in this process.

Capital works investment decision-making

Currently, agencies develop and submit business cases for any capital works project with an estimated cost exceeding \$1 million. Agencies use the Department of Treasury and Finance's standard whole of government business case template, however, the quality of information provided varies considerably. The ability for Cabinet to request supplementary submissions to address particular issues and gaps can be limited, particularly during the budget process.

The Northern Territory Auditor-General has made a number of recommendations to improve project planning, risk assessment and management of major projects in the Territory^{39, 40}, including:

- planning for major projects should:
 - identify the service need and possible options to meet the desired outcome
 - define criteria for project success
 - analyse the costs, risks and benefits of various options
 - comprehensively assess the whole-of-life financial effect of the project options
 - comprehensively determine future operational costs
- comprehensive business cases should be developed for major projects that document the advantages, disadvantages, costs, benefits, risks and consequences of each available option
- robust evaluation of the design, implementation and effectiveness of procurement controls should be undertaken on a regular basis to mitigate risks associated with procurement.

In 2017, the Territory Government released the Northern Territory Infrastructure Strategy, which provides a framework for how the Territory Government will plan, prioritise, use and deliver infrastructure⁴¹. It also includes a high level outline of the Northern Territory Project Development Framework (NTPDF), which is a structured approach to project development (Figure 9). However, the Territory Government is yet to regularly operationalise the NTPDF⁴².

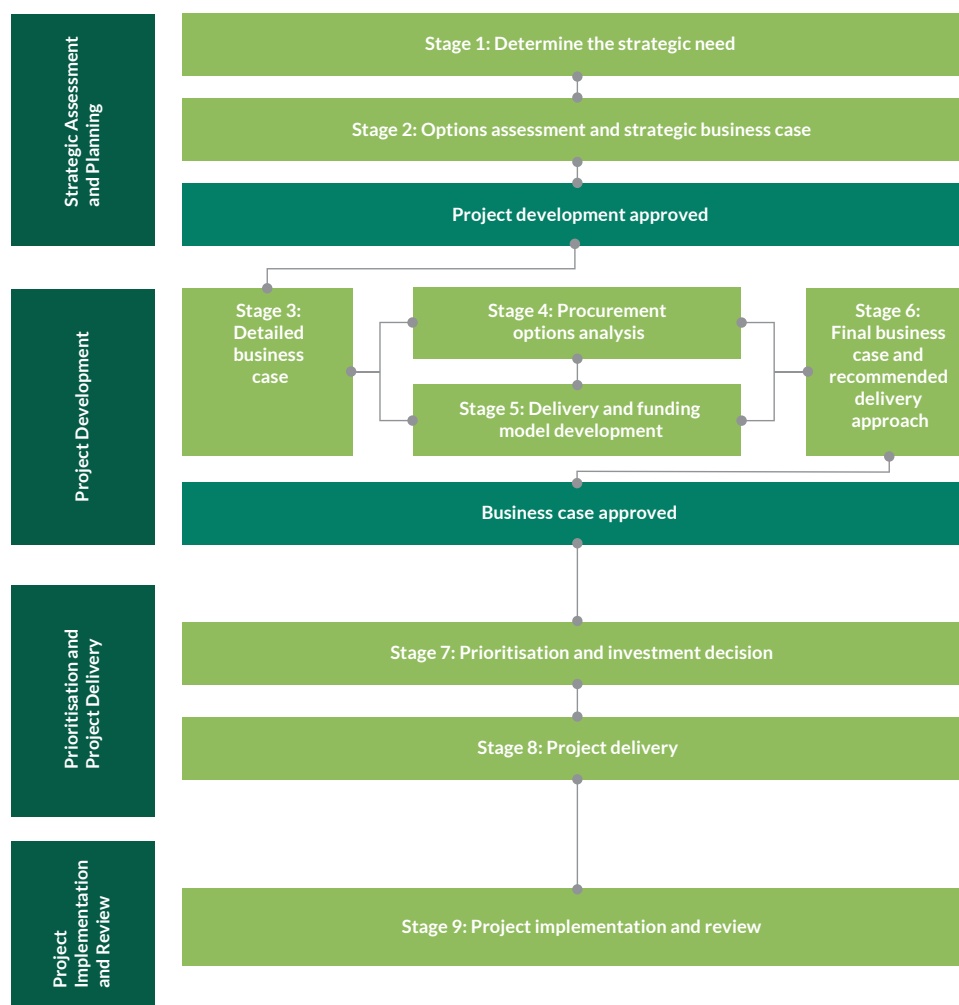
39 Auditor-General for the Northern Territory, June 2016 Report to the Legislative Assembly, 2016, accessed February 2019 (http://www.nt.gov.au/ago/reports/2016_June.pdf)

40 Auditor-General for the Northern Territory, August 2018 Report to the Legislative Assembly, 2018, accessed February 2019 (http://www.nt.gov.au/ago/reports/2018_August.pdf)

41 Northern Territory Government, Infrastructure Strategy, May 2017, accessed February 2019 (<https://edf.nt.gov.au/supporting-strategies-and-plans>)

42 Auditor-General for the Northern Territory, August 2018 Report to the Legislative Assembly, 2018, accessed February 2019 (http://www.nt.gov.au/ago/reports/2018_August.pdf)

Figure 9: Northern Territory Project Development Framework



Source: Northern Territory Government Infrastructure Strategy

Commonwealth capital investment

Increasing the level of Commonwealth capital investment in the Territory will also be an important element in addressing the Territory's infrastructure deficit in a fiscally sustainable manner.

In 2018-19, the Commonwealth is expected to contribute around \$550 million in capital works funding to the Territory, predominantly through roads and transport projects (\$318 million).

The Commonwealth is increasingly adopting a co-contribution approach towards capital investment with states and territories. For example, road investment is usually done on an 80/20 basis⁴³.

The Commonwealth also undertakes direct capital investment in the Territory through defence infrastructure, which is expected to play a significant role in the coming two decades, as well as investment in other Commonwealth assets in the Territory such as Kakadu National Park⁴⁴.

⁴³ 80 per cent Commonwealth and 20 per cent state or territory.

⁴⁴ In January 2019, the Commonwealth committed at least \$216 million in funding to improve roads and tourist facilities related to Kakadu National Park.

Despite these projects, the absolute amount of Commonwealth investment in the Territory remains relatively small in comparison with other jurisdictions, particularly given the infrastructure deficit inherited by the Territory at self-government (Chart 28).

Chart 28: Specific purpose payments in the infrastructure sector



Source: Commonwealth Government, Mid-Year Economic Fiscal Outlook 2018-19

Proposed reform

Capital investment decision-making

The Territory needs a more robust approach to the upfront analysis of government facilitated and funded capital projects. Evidence-based business cases with adequate analysis are needed to support informed decision-making regarding the prioritisation of public funds and achieving the best value for money for Territorians.

The NTPDF provides a structured, whole-of-life approach for projects, consisting of four project phases:

1. Strategic assessment and planning
 - identifying the strategic need or opportunity for the project
 - analysing the potential construction, delivery and funding options and risks
2. Project development
 - clearly defining the project scope and outcomes to be achieved
 - ongoing stakeholder engagement, including with relevant agencies
 - analysis of the whole-of-life net financial cost to government, the net public benefits, project risks and delivery models
 - identifying a preferred option to deliver the desired outcomes, based on robust analysis and the value for money principle, for Cabinet consideration
3. Prioritisation and project delivery
 - prioritising proposed projects in line with the Territory Government's strategic priorities and budgetary considerations
 - negotiating and executing contracts and finalising development agreements

4. Project implementation and evaluation

- implementing governance processes for the transition from execution of final contract documents through project construction, to the commissioning and operations phase.
- evaluating the investment to determine whether the outcomes sought were achieved.

The NTPDF reflects good practice project assurance methodology implemented in other jurisdictions, such as the Western Australian Government's Mandatory Gateway Review⁴⁵.

To effectively operationalise the NTPDF, it is recommended that the Territory Government develop a specific Treasurer's Direction, which would apply the existing NTPDF to all government agencies and to any applicable project proposed to be funded by the Territory Government.

To ensure an appropriate balance between administrative burden and project risk, it is proposed that the NTPDF apply to all projects with a total estimated value equal to or exceeding \$30 million. Projects of a lesser value should also draw on the NTPDF as necessary to assist and guide the development of business cases in a manner suitable to justify the investment.

The NTPDF would not cover major ICT projects, which are developed in accordance with existing Treasurer's Directions (ICT Investment 2.1).

Commonwealth funding

The Commonwealth is a major source of infrastructure funds for the states and territories and also influences infrastructure provision through policy, including regulation and legislation that set the parameters within which other governments and the private sector make investment decisions. The Commonwealth also provides funding for local governments that supports infrastructure investment and maintenance.

Defence investment, remote housing and economic enabling infrastructure are three key areas of opportunity for the Territory, in terms of Commonwealth infrastructure funding.

The Territory estimates that the Commonwealth will invest around \$20 billion on defence infrastructure in the Territory over the next 20 years, including \$2 billion shared by Australia and the United States as part of the joint Australia-US Force Posture Initiative. It is critical that the Territory Government works to secure this investment, including bringing forward projects where possible to support the Territory economy.

The Territory Government is currently implementing a \$1.1 billion 10-year remote housing investment program, comprising four elements:

- Homebuild NT: \$500 million over 10 years for the construction of new public housing
- Room to Breathe: \$200 million over 10 years to increase living spaces in existing homes
- repairs and maintenance: \$200 million over 10 years for repairs and maintenance

⁴⁵ Western Australian Government, Department of Finance website, accessed February 2019 (https://www.finance.wa.gov.au/cms/Government_Procurement/Gateway/Gateway.aspx)

- Government employee housing: \$200 million over 10 years to expand government employee housing to include locally recruited Territory Government employees in remote areas.

The Territory Government should continue to work with the Commonwealth to secure a co-investment in remote housing, premised on the Commonwealth's 80/20 approach to roads funding in recognition of the significant housing deficit in the Territory's remote communities.

The Territory Government should also continue to work with the Commonwealth on ensuring that national infrastructure funding pools have sufficient flexibility to allow the Territory to access funding for projects with broader economic and social objectives that do not necessarily comply with traditional project-based economic assessments. This is important as traditional approaches, (for example, a cost-benefit analysis) are often geared towards larger, densely populated urban environments where uplifts in land and amenity value are significant and readily quantifiable.

The Territory has had recent success in this regard with changes to the investment mandate of the Northern Australia Infrastructure Fund resulting in funding flowing to a number of projects in the Territory.

It is critical that any additional Commonwealth investment to address the Territory's infrastructure deficit be excluded from the Commonwealth Grants Commission process to avoid offsetting reductions in the Territory's GST revenues, which would undermine the intent and effectiveness of such investment.

Key issues

Implementing the NTPDF will require agencies to dedicate greater resources to upfront project planning and development. The impact on individual agencies will depend on the quality of their existing processes to prepare business cases and manage projects. Training and development will also be crucial to successful implementation.

Securing additional tied Commonwealth funding can have implications for the Territory's GST revenue. In particular, the Territory Government should seek to have any funding for remote housing infrastructure treated by exclusion through the Commonwealth Grants Commission process in recognition that such funding aims to address unmet need rather than provide fund the national average level of service.

Recommendations

- 5.5.11 Implement the Northern Territory Project Development Framework (NTPDF) via Treasurer's Direction to ensure a structured approach to capital project development.
- 5.5.12 Work with the Commonwealth to secure increased capital investment to address the Territory's infrastructure deficit.

Reform map 5: Evidence-based decision-making

A whole of government program and regulatory evaluation framework that drives a culture of continuous improvement across the NTPS and supports evidence-based decision-making.

Program evaluation

Recommendation 5.5.1:

Develop a whole of government program evaluation framework.

Recommendation 5.5.2:

Update the Cabinet submission template to include program evaluation requirements.

Recommendation 5.5.3:

Develop an annual schedule of evaluation of existing programs for approval by the Budget Review Subcommittee.

Recommendation 5.5.4:

Mandate the use of sunset clauses in new programs.

Recommendation 5.5.5: Foster the development of behavioural economics capability across the NTPS with a focus on adopting proven approaches from other jurisdictions.

Regulatory evaluation

Recommendation 5.5.6: Develop a process to ensure new and existing business-related regulations are actively maintained and improved through a regulatory stewardship model.

Recommendation 5.5.7: Update the Cabinet submission template to include regulation evaluation requirements.

Recommendation 5.5.8: Develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty.

Recommendation 5.5.9: Publicly report actual performance against approved regulatory decision-making process timeframes through annual reports and budget papers.

Recommendation 5.5.10: Mandate the use of sunset clauses in new regulations that affect the cost of doing business in the Territory.

Capital investment

Recommendation 5.5.11:

Implement the Northern Territory Project Development Framework (NTPDF) via Treasurer's Direction to ensure a structured approach to capital project development.

Recommendation 5.5.12:

Work with the Commonwealth to secure increased capital investment to address the Territory's infrastructure deficit.

Goal 6. Digital transformation

Key points

- Digital transformation offers the Territory the opportunity to improve policy effectiveness and enable cheaper and faster service delivery through convenient online transactions.
- Providing services to a relatively small, remote and dispersed population is challenging and expensive. Adopting a digital-first mindset to government service delivery can reduce the cost of service provision through smarter use of technology.
- The Territory needs a well maintained central repository of agency ICT system information to effectively plan for ICT investment and monitor overall ICT capabilities and vulnerabilities.
- The Territory should work to identify opportunities to replace bespoke systems with commercial off-the-shelf alternatives that can provide similar functionality while achieving efficiencies through economies of scale and/or standardisation.
- The Territory should develop a single integrated budget management system for agencies to address the risks and inefficiencies inherent in the current approach.
- The Territory should commence a program of reform to augment its internal and external service delivery capacity and quality through process automation.

Goal

The productivity and effectiveness of the NTPS is improved through outcome driven innovation, a digital-first approach, and efficient ICT systems and infrastructure.

Context

Globalisation and technology are constantly changing the nature of work, presenting new opportunities and unique challenges.

Governments around the world are undergoing a digital transformation with an increasing focus on online delivery of services and programs, which has the dual benefit of being more convenient for citizens as well as being less resource intensive⁴⁶.

The Territory Government was ranked last and second last in two recent jurisdictional comparisons on government digital readiness⁴⁷. This suggests there is scope for the Territory to create efficiencies and improve convenience through digital transformation.

In the Territory, the Office of Digital Government, within the Department of Corporate and Information Services, has the lead role in advancing whole of government digital initiatives, ICT strategy development and ICT project assurance. This work is supported by the Digital Territory Strategy and the ICT Governance Framework.

To maximise the benefits associated with a digital transformation, the Territory needs to adopt a digital-first mindset, improve the management and efficiency of its ICT systems and capability, and proactively harness service automation opportunities.

46 Deloitte Access Economics, Digital Government Transformation, 2015, accessed February 2019 (<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-digital-government-transformation-230715.pdf>)

47 Cisco Digital Readiness Index 2018 (https://www.cisco.com/c/m/en_au/digital-readiness-index) and the Intermedium Digital Government Readiness 2019 Indicator (<https://www.intermedium.com.au/article/how-did-your-jurisdiction-fare-2019-digital-government-readiness-report-released>)

A digital-first mindset

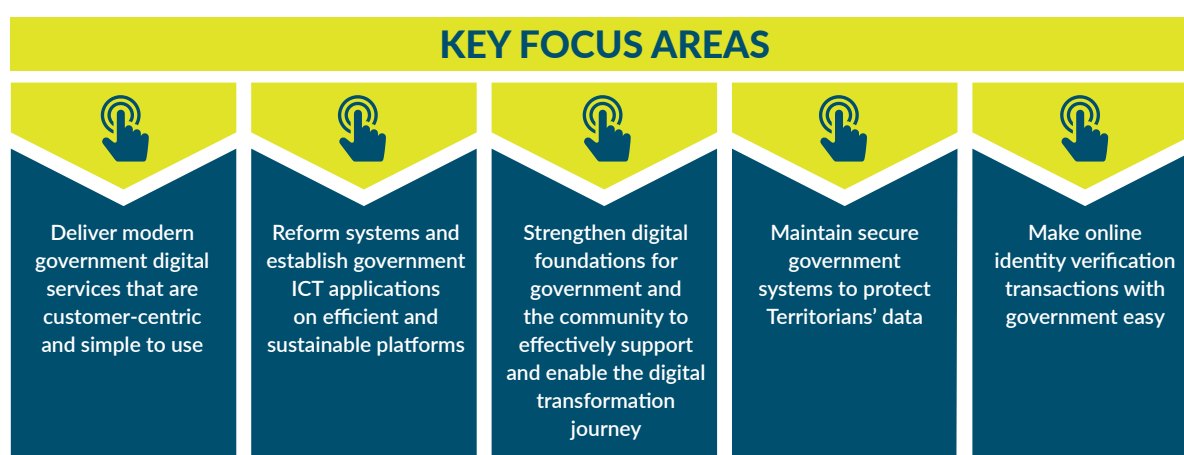
Current situation

Many Territory Government services are currently delivered at shopfronts or by telephone or mail. Although the need to provide offline government services will remain for some time, Territorians and businesses increasingly expect to engage with government online rather than waiting in queues or filling out paperwork.

The Digital Territory Strategy, released in 2018, provides a framework to maximise and promote digital capabilities across the Territory and assist Territorians to gain the skills, knowledge and capabilities to keep pace with digital advancement⁴⁸. The key components of the Digital Territory Strategy are growing business and jobs, connecting Territory communities, building digital skills, enabling smarter communities and improving government services.

The improving government services component contains key focus areas underpinned by a range of actions with a particular focus on improving ICT systems, security, coordination and data flow across government (Figure 10). However, the strategy does not have an explicit focus on improving service delivery efficiency through technology and digitisation.

Figure 10: Digital Territory strategy – improving government services component



Source: Department of Corporate and Information Services, Digital Territory Strategy

Proposed reform

Providing services to a relatively small, remote and dispersed population is challenging and expensive. To reduce the cost of service provision across the Territory, the Territory Government should supplement its existing Digital Territory Strategy with a broader digital-first mindset to government service delivery. This has the potential to reduce the cost of service provision across the Territory through smarter use of technology including:

- online government services
- telehealth
- court videoconferencing
- unmanned aerial vehicles (drones).

⁴⁸ Digital Territory Strategy website, accessed February 2019 (<https://digitalterritory.nt.gov.au/>)

At the core of such an approach, it is always appropriate to ask:

- can the service be conducted digitally?
- what is the simplest and most cost-effective method of delivering the service?
- how can the Territory make the best use of any resulting data?

A level of face-to-face service will continue to be required, particularly for those with limited digital access. However, innovative delivery mechanisms and partnerships (for example, partnering with Australia Post to deliver motor vehicle registry services) should be explored when considering options to increase service delivery efficiency.

Online government services

Online government services can create efficiencies in government by:

- reducing transaction costs (online transactions are estimated to cost about \$0.40 each compared to \$16.90 for face-to-face transactions, \$12.79 for postal transactions and \$6.60 for phone transactions⁴⁹). For example, the Western Australian Office of the Auditor-General estimated the Western Australian government could save \$2.2 billion over the next 10 years by moving half of phone and mail transactions online⁵⁰
- optimising revenue collection (digital revenue systems are more convenient for citizens and reduce the loss in revenue for governments due to late payments)
- reducing red, green and beige tape by removing manual processes and improving coordination across government
- harnessing data to inform government decisions, such as:
 - identifying inefficiencies in government processes⁵¹
 - improving public accountability
 - evaluating programs and policies
 - informing community consultation.

Agencies should be aware of the potential inefficiencies of traditional transaction channels and should include potential offset savings in their business cases for ICT projects. To incentivise the approach, consideration should be given to allowing agencies to retain a proportion of any savings.

Telehealth

Telehealth is a videoconferencing system that allows patients to remotely connect with healthcare providers. Telehealth in the Territory is delivered through TeleHealth NT, which is governed by the TeleHealth NT Steering Committee, including nursing and medical

49 Deloitte Access Economics, Digital Government Transformation, 2015, accessed February 2019 (<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-digital-government-transformation-230715.pdf>)

50 Office of the Auditor General Western Australia, Delivering Services Online, Report 8, 2016, accessed February 2019 (https://audit.wa.gov.au/wp-content/uploads/2016/05/report2016_08-OnlineServices.pdf)

51 For example, the use of manual paper-based briefings for courts.

disciplines, Aboriginal Controlled Medical Services, Northern Territory Primary Health Networks and eHealth services.

TeleHealth NT currently includes seven service domains:

- Tele-Critical Care – improving quality and timely access to critical care skills and advice
- Tele-Specialist Clinics – improving logistics and access to ambulatory care
- Tele-Workforce Support – enhancing clinical service delivery including education, training, clinical supervision and procedural support
- Tele-Complex Case Management – multi-disciplinary interventions that support advocacy, communication and effective resource management
- Tele-Inpatient Care – inpatient care enhanced by access to specialists across the Territory
- Tele-Family Support and Virtual Visitations – patient and family meetings to strengthen outcomes by increasing participation in decision-making
- Tele-Sonography – real time connections to specialists required for diagnosis of conditions across videoconference including ultrasound and other imagery⁵².

In 2016, an evaluation of a telehealth trial in the Territory found that it had reduced costs to the Patient Assistance Travel Scheme (savings estimated at \$1.19 million) and improved appointment attendance compared to standard hospital outpatient clinics⁵³.

The Top End Health Service has a Priority Project on Ambulatory Care including a focus on increased use of telehealth and has reported increased telehealth occasions of service in 2017-18⁵⁴. The Central Australia Health Service established a telehealth centre in February 2018 for the Remote Outreach Consultation Centre to expand use of telehealth consultations between patients and staff in remote communities⁵⁵.

The Territory Government is planning to expand the range of services provided by telehealth (for example, to include mental health services) and is implementing training packages for clinicians providing telehealth to improve quality and engagement⁵⁶.

Given the potential for telehealth to reduce costs, better integrate services, minimise inconvenience for patients and improve the timely assessment of patient treatment options, further expansion of telehealth services across the Territory should be prioritised and accelerated.

52 Northern Territory Government, Department of Health website, accessed February 2019 (<https://health.nt.gov.au/professionals/ehealth/telehealth>)

53 Northern Territory Government Newsroom, Telehealth trial delivers more services for patients and savings for Government, 2016, accessed February 2019 (<http://newsroom.nt.gov.au/mediaRelease/18334>)

54 Northern Territory Government, Department of Health 2017-18 Annual Report, accessed February 2019 (<https://digitallibrary.health.nt.gov.au/prodjsui/handle/10137/7187>)

55 Northern Territory Government, Department of Health 2017-18 Annual Report, accessed February 2019 (<https://digitallibrary.health.nt.gov.au/prodjsui/handle/10137/7187>)

56 Northern Territory Government, Department of Health 2017-18 Annual Report, accessed February 2019 (<https://digitallibrary.health.nt.gov.au/prodjsui/handle/10137/7187>)

Courts

Videoconferencing in courts reduces the costs associated with defendant and witness transportation (including escorts), enhances security by reducing the risk of defendant escape, and improves efficiency. For example, New South Wales invested \$40 million over four years in the Audio Visual Link project, which was completed in 2018. By June 2018, the project had already delivered more than \$29.5 million in benefits including improved safety and security, early legal preparation, improved efficiencies in coordination, time saved by police officer witnesses, and reduced custody transport⁵⁷. Similarly, Pennsylvanian courts have estimated that videoconferencing saves the state approximately \$21 million per annum⁵⁸.

The Territory Government is undertaking a joint initiative with the Commonwealth Government to implement videoconferencing facilities in agreed remote Territory locations. Facilities in Borroloola, Tennant Creek and Yuendumu have been completed and facilities in Nhulunbuy, Alyangula, Lajamanu and Gapuwiyak are in progress⁵⁹. The Territory also has videoconferencing capabilities in its correctional facilities.

The Territory Government should continue to expand court videoconferencing throughout the Territory and require courts and the judiciary to structure their proceedings in such a way as to maximise the potential use of videoconferencing to drive efficiencies in the judicial system.

There are also opportunities to improve government service delivery efficiency through ICT system enhancements. For example, introducing electronic case briefings for courts in place of the existing manual paper-based approach.

Drones

Government and commercial use of drones is increasing worldwide. It is estimated that there could be over 76 000 drones in United Kingdom skies by 2030, with more than a third used in the public sector (including in defence, health and education)⁶⁰. The Queensland Government is using drones to monitor nesting grounds for green turtles, survey offshore islands and coral reefs, and identify and eliminate marine pests⁶¹. Potential government uses of drones include:

- monitoring assets
- surveillance of invasive plants and animals
- assisting in emergency situations by informing disaster recovery efforts and delivering supplies.

57 New South Wales Government, Department of Justice 2017-18 Annual Report, accessed February 2019 (<https://www.justice.nsw.gov.au/Documents/Annual%20Reports/dept-justice-annual-report-2017-18.pdf>)

58 Administrative Office of Pennsylvanian Courts, PA Courts Expand Use of Video Conferencing, Saving \$21 Million Annually in Defendant Transportation Costs, 2011, accessed February 2019 (<http://www.pacourts.us/assets/files/newsrelease-1/file-1396.pdf>)

59 Northern Territory Government, Department of the Attorney-General and Justice 2017-18 Annual Report, accessed February 2019 (https://justice.nt.gov.au/__data/assets/pdf_file/0008/590669/agd-annual-report-2017-2018.pdf)

60 Price Waterhouse Coopers UK, The impact of drones on the UK economy, accessed February 2019 (<https://www.pwc.co.uk/dronesreport>)

61 Queensland Government, Queensland Drones Strategy, 2018, accessed February 2019 (<https://www.premiers.qld.gov.au/publications/categories/plans/queensland-drones-strategy.aspx>)

The Territory Government has already started using drones to capture high resolution imagery of legacy mine sites, reducing inspection times and increasing safety⁶². Territory police have also used drones to locate suspects in Alice Springs⁶³. The Territory, with its remote locations and sparse population, is ideally situated to benefit from government use of drones and the Territory Government should consider the potential efficiencies created by such an approach.

Key issues

Effective implementation will require Territorians and businesses to participate in a co-creation process to harness insight and new thinking from outside the public sector to create new solutions.

There are several barriers to digital government transformation in the Territory including the need to coordinate reform across siloed agencies, disparate ICT systems across agencies, cultural barriers and poor, though improving, connectivity in some regional and remote areas.

Most importantly, the Territory Government has limited capacity to make large, upfront investments in ICT projects. While technology costs are continuing to decline, it will be important to prioritise investment and understand that digital transformation will be a gradual process requiring careful change management.

Recommendations

- 5.6.1 Adopt a digital-first mindset in relation to government service delivery.
- 5.6.2 Develop a digital government transformation plan to identify technologies that could create efficiencies in the delivery of government services across the Territory, such as telehealth/videoconferencing/drones.

ICT system planning and efficiency

Current situation

The Territory Government is currently implementing a number of significant ICT systems that will play a crucial role in supporting primary service delivery, including the Core Clinical Systems Renewal Program (health), SerPro (police) and the Client Management System Alignment (child protection and youth justice). Delivering these projects on time and on budget will assist government in managing within the approved forward estimates envelope.

The Territory's ICT Governance Framework provides the foundation for the management of the Territory's ICT, with the aim of aligning ICT to government's strategic direction, promoting appropriate and consistent standards across government, and assessing and

62 Northern Territory Government, Department of Primary Industry and Resources 2017-18 Annual Report, accessed February 2019 (https://dpiir.nt.gov.au/__data/assets/pdf_file/0009/590949/DPIIR-AR-2017-18.pdf)

63 Alice Springs News Online, Police use drone in finding assault suspects, 2018, accessed February 2019, (<http://www.alicespringsnews.com.au/2018/08/07/police-use-drone-in-finding-assault-suspects/>)

monitoring major ICT investments through to delivery. The framework was developed following a number of high profile ICT project delivery failures⁶⁴.

While the current framework appears appropriate for managing the delivery of new projects, the Territory does not have an ICT roadmap outlining anticipated replacement timing for existing major ICT systems approaching end-of-life. The absence of a central repository of agency ICT inventory information also means that the Territory does not have a clear picture of government's overall ICT systems, capabilities, vulnerabilities and interdependencies.

Proposed reform

In the past five years, the Territory Government has made significant investments in key service delivery ICT systems, the largest being \$259 million over five years to replace the four core systems that support patient and client health services under the Core Clinical Systems Renewal Program⁶⁵.

Developing a new major system or replacement, from initial proposal to implementation can take around four years (two years for a minor system). To enable appropriate planning from both an ICT and budget perspective, it is important the Territory understands the expected life-cycles of its major ICT systems and has a clear plan regarding replacement from both an ICT and financing perspective.

To inform the development of an ICT roadmap, the Territory should undertake a whole of government ICT system audit to determine the range of ICT systems actively used across government, their interdependencies and anticipated lifecycles.

The audit should also be used to identify opportunities to replace bespoke systems with commercial off-the-shelf alternatives that can provide similar functionality while achieving efficiencies through economies of scale and/or standardisation.

Key issues

Collating this information could initially be a substantial task for agencies and may need to be prioritised based on:

- the potential impact of system failure on government operations (for example, immediate degradation of essential services, failure to meet existing community expectations, non-ambulatory health care standards, traffic, justice, family services and corrections management)
- system acquisition and development costs (for example, are costs expected to be high/substantial in relation to business as usual ICT expenditure forecasts).

To the extent opportunities for standardisation are identified to achieve whole of government efficiencies, agencies will need to work collaboratively to adapt processes and expectations. This will require carefully considered change management strategies and stakeholder consultation and engagement.

⁶⁴ Public Accounts Committee, Management of ICT Projects by Government Agency, 2014, accessed February 2019 (https://s11217.pcdn.co/wp-content/uploads/2014/05/PAC_Report_ICT_Inquiry_Management_in_the_Northern_Territory_Government.pdf)

⁶⁵ The existing systems were between 15 and 25 years old and had reached end of life and technical obsolescence.

Recommendations

- 5.6.3 Undertake a whole of government ICT system stocktake.
- 5.6.4 Develop and maintain a five-year ICT system roadmap outlining priority projects and major system replacement requirements.
- 5.6.5 Rationalise the number of bespoke/standalone ICT systems across the NTPS.

Budget management systems

Current situation

The Territory has a whole of government budget system (APEX) and a standard chart of accounts, which enables the preparation of consolidated budget and actual financial reports. However, despite the relatively small size of the NTPS, the Territory Government does not have a whole of government budget management system that is capable of budgeting at the cost centre level or providing consolidated cashflow information. Instead, agencies use a range of solutions including inhouse applications, unsophisticated spreadsheet-based approaches and the Department of Corporate and Information Services' Feenix system⁶⁶ as well as manual monthly reporting of cash flows to the Department of Treasury and Finance.

A number of the Territory Government's larger agencies, including the Department of Education, Department of Local Government, Housing and Community Development, and Territory Families, have adopted variants of the Budget Forward Estimates System (BFES) developed inhouse and still used by the Department of Health. These systems operate in separate ICT environments under different (and in some cases outdated/non-compliant) ICT standards resulting in duplication and increased operational risk.

Additionally, the lack of a whole of government approach restricts the ability of the Department of Treasury and Finance to centrally monitor real-time financial performance against approved budgets and actual cash flows and, in the case of spreadsheet-based approaches, significantly increases the Territory's financial risk⁶⁷. It also results in increased manual reporting for agencies, which have to prepare a range of monthly and ad-hoc reports for the Department of Treasury and Finance that are subsequently collated for Cabinet and Budget Review Subcommittee reporting.

Proposed reform

To address the financial and operational risks and inefficiencies associated with the current approach, it is recommended that the Territory Government develop and implement a single integrated budget management system for agencies. The new system

⁶⁶ Feenix was developed by the Department of Corporate and Information Services largely for internal use but with the potential for broader adoption across government. To date, adoption by other agencies has been limited due to functional limitations.

⁶⁷ In 2018, following significant budget overruns, Northern Territory Police, Fire and Emergency Services and the Department of the Attorney-General and Justice undertook agency reviews to inform the development of return to budget strategies. Both reviews identified shortcomings in the existing, largely spreadsheet-based, budget and financial management systems as contributing to budget overruns and presenting a general barrier to providing the quality of data necessary to support evidence-based management decisions.

should be managed centrally by the Department of Corporate and Information Services and provide a standardised solution to minimise duplication, ensure enhancements are available to all users, and enable best practice management reporting for agency decision-making.

The new system should enable cost centres to be easily attributed across a range of variables to enable simplified budget and mandatory reporting (for example, Australian Bureau of Statistics classification of the functions of government and location-based reporting) and enable real-time cash flow analysis at the whole of government level.

Key issues

Developing a new system will require a financial commitment from the Territory Government, however, this is not expected to be substantial and is likely to be inconsequential in relation to the risks associated with agencies, particularly larger agencies, continuing to manage budgets via spreadsheets.

Preliminary discussions with the Department of Corporate and Information Services suggest costs can also be minimised through using Feenix as the basis for the new product, though significant changes in the underlying system architecture may be necessary to provide the level of functionality required by larger agencies.

To fully realise the benefits, the solution will need to be applied across government. Given the disparities between existing approaches, this will inevitably require some changes in budget management processes, practices and reporting across government, and sustained executive support for the change will be essential.

Recommendation

5.6.6 Develop and implement a single integrated budget management system for agencies.

Service automation

Current situation

The Territory Government, like much of the Australian public sector, either maintains or is currently implementing a number of technology systems for service delivery and support functions. Legacy systems typically operate in silos, and do not integrate effectively, creating duplication of effort and multiple points of contact. This results in additional process steps, potentially causing errors and longer processing times. It also creates a significant risk where data is not entered and recorded correctly.

System limitations also result in significant amounts of time being spent by staff on low value and repetitive activities such as manual data entry, validation and processing. This results in additional personnel being required to execute processes, longer processing times and increased risk of human error. It also limits the ability of staff to focus on strategic initiatives and higher value tasks.

Proposed reform

Increasing the use of process automation would provide the Territory Government with a different approach to workforce capacity, particularly in shared and back-office services

such as procurement, finance and transactional human resources processes (such as payroll, onboarding and leave processing). Intelligent automation provides opportunities to execute some processes at much greater speed and at a significantly lower cost than manual processing, particularly in relation to low value and repetitive tasks.

The benefits to the Territory Government from greater use of automation include:

- improved service performance
- sustained cost reduction
- improved workforce productivity and job satisfaction
- risk reduction
- faster service delivery
- continuous improvement and innovation.

While large multi-year ICT system transformation programs (for example, the Core Clinical Systems Renewal Program) can provide benefits over time, a key advantage of contemporary automation is that the return on investment can be as short as weeks or months. It is often feasible to move from initial assessment to proof-of-concept and piloting improvements in a short space of time.

The first stage of an automation reform program for the Territory Government would be to conduct an end-to-end process analysis or opportunity scan of highly administrative processes with stakeholders from the Department of Corporate and Information Services, to identify optimisation opportunities. The opportunity scan would:

- provide a baseline of the Territory's processes and quantify the automation potential for each process
- identify areas of greatest benefit potential providing a view on where to start
- provide input to a business case, including estimating automation benefits and implementation costs.

Key issues

Process automation does not necessarily imply workforce reduction, rather it presents the opportunity to meet growing volume and quality demands with the same workforce by freeing up capacity to be refocused on higher value functions. It supports the transformation of corporate services functions from a focus on transactions and compliance to a focus on customer service and strategic advice.

Automation of manual, labour intensive and repetitive tasks can create anxiety among staff, which needs to be recognised and carefully managed. Staff need to be involved in the automation journey from the beginning as part of a people-first approach.

This reform has linkages with other recommendations in this report including the centralisation of corporate services and industrial relations reforms, which if implemented will significantly increase the potential opportunities associated with automation through increased process and policy standardisation and streamlined employment arrangements.

Recommendation

5.6.7 Develop an automation roadmap for Territory Government service delivery.

Reform map 6: Digital transformation

The productivity and effectiveness of the NTPS is improved through outcome driven innovation, a digital-first approach, and efficient ICT systems and infrastructure.

A digital-first mindset

Recommendation

5.6.1: Adopt a digital-first mindset in relation to government service delivery.

Recommendation

5.6.2: Develop a digital government transformation plan to identify technologies that could create efficiencies in the delivery of government services across the Territory, such as telehealth/ videoconferencing/ drones.

ICT system planning and efficiency

Recommendation

5.6.3: Undertake a whole of government ICT system stocktake.

Recommendation

5.6.4: Develop and maintain a five-year ICT system roadmap outlining priority projects and major system replacement requirements.

Recommendation

5.6.5: Rationalise the number of bespoke/ standalone ICT systems across the NTPS.

Budget management systems

Recommendation

5.6.6: Develop and implement a single integrated budget management system for agencies.

Service automation

Recommendation

5.6.7: Develop an automation roadmap for Territory Government service delivery.

Goal 7. Revenue optimisation

Key points

- During the interim report stakeholder engagement process, most participants acknowledged that repairing the Territory's budget primarily by raising own-source revenues would damage the Territory's economy.
- Nonetheless, there appears to be some scope to raise additional own-source revenue through reform to bookmaker and betting exchange taxes.
- The Territory's public investments should be providing sustainable returns on investment to the Territory and, in the case of government owned corporations, be operating at least as efficiently as any comparable business. This is not currently the case, particularly in relation to Territory Generation.
- The Territory needs to increase accountability for the performance of government owned corporations against their statements of corporate intent, including developing clear sanctions for non-performance.
- The Territory Government should develop asset management and government pricing frameworks to facilitate informed decisions on asset ownership and optimise own-source revenues.
- The Territory needs to increase Commonwealth funding on major programs where the current share of funding is low relative to the Territory's population share or sociodemographic needs.

Goal

A competitive and sustainable own-source revenue base, commercial management of public investments, robust government pricing policies and a fair share of Commonwealth funding.

Context

While the Territory Government will need to continue to lobby the Commonwealth Government for a fairer share of GST revenue, it is also important that consideration be given to:

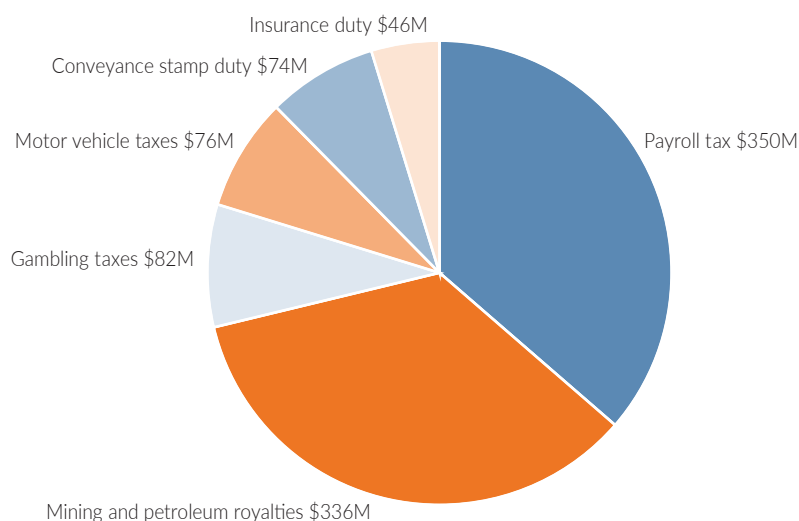
- increasing the Territory's own-source revenues
- ensuring public investments are managed on a commercial basis, particularly investments in government owned corporations
- robust government pricing and asset management policies
- maximising other Commonwealth Government revenues.

Own-source revenue

Current situation

The Territory levies similar taxes and royalties to other jurisdictions (the exception being the absence of a land tax in the Territory) and its own-source revenue base largely comprises taxes and mining revenue (Chart 29). The Territory's taxation effort, as assessed by the Commonwealth Grants Commission, is 89.7 per cent (national average = 100 per cent).

Chart 29: Main own-source revenue categories, 2017-18



Source: Department of Treasury and Finance

Territory taxation revenues are among the lowest in Australia (Chart 30).

Chart 30: Comparison of state and territory taxation⁶⁸, 2016-17



Source: ABS, Australian National Accounts: State Accounts, Cat. No. 5220.0, Taxation Revenue, Australia, 2016-17, Cat. No. 5506.0, Australian Demographic Statistics, Cat. No. 3101.0

The Territory also receives other revenues including fees and charges, rent and tenancy income, interest and dividends and profit/loss on the disposal of government assets.

⁶⁸ Excludes mineral royalties.

In November 2017, the Territory Government released the Northern Territory Revenue Discussion Paper, which provided a summary of the Territory's tax and royalty systems, including policy objectives and economic efficiencies and inefficiencies. The discussion paper and subsequent consultation process provided the basis for a number of revenue measures adopted in the 2018 Budget, including:

- a payroll tax exemption for Territory resident employees starting new jobs from 1 May 2018 to 30 June 2020
- allowing miners to deduct the costs of building social infrastructure and accommodation costs for Territory employees in the calculation of royalties (and removing deductions for travel and ancillary costs for employees who do not reside in the Territory)
- introducing a minimum royalty based on the gross value of mineral production, commencing 1 July 2019 at a rate of 1 per cent, increasing to 2.5 per cent over the first three years of production for each royalty payer
- introducing a derelict and vacant property levy, commencing 1 July 2019, on unoccupied commercial land in the Darwin central business district, at a rate of 1 per cent of the unimproved capital value for buildings that are 50 per cent or more vacant, and 2 per cent for undeveloped property.

During the Interim Report stakeholder engagement process, the Territory's tax and royalty regime was raised by a number of participants. Most participants acknowledged that repairing the Territory's budget by raising own-source revenues would have deleterious consequences for the Territory economy, however, the Territory's gambling taxation arrangements were identified as a potential area for reform. Views were also expressed about the merits of the Territory's current payroll tax and mining royalty arrangements and whether they are hindering private investment.

Gambling tax

The Territory Government imposes several kinds of gambling taxes, mainly from lotteries and the use of electronic gaming machines (pokies). Corporate bookmakers and the Territory's two licensed casinos also pay gambling taxes, as does UBET, the provider of totalisator betting in the Territory.

Pokies, table games, lotteries, and NT Keno typically physically take place in the Territory, while betting on events, and in particular sports betting, can occur online with the bets being placed remotely by both local and interstate customers. To the extent the online bookmakers and betting exchange companies are located in the Territory, taxes are currently paid to the Territory regardless of where the customers are located.

Gambling taxes raised \$82 million in 2017-18, the third largest contributor to the Territory's own-source revenue. However, the Territory has some of the most favourable gambling taxation and regulatory arrangements in Australia, particularly in relation to bookmakers and betting exchanges.

Payroll tax

In the Territory, employers pay payroll tax of 5.5 per cent on annual taxable wages of \$1.5 million or more. Payroll tax is the largest contributor to Territory own-source revenues, providing \$350 million in 2017-18.

During the Interim Report stakeholder engagement process, a small number of participants expressed the view that the Territory's payroll tax threshold should be increased, to encourage businesses to hire more staff. In particular, a view was expressed that the Territory's payroll tax threshold is acting as a disincentive for employers to add jobs if it means exceeding the threshold and becoming liable for payroll tax.

Payroll tax is one of the more efficient taxes available to state and territory governments, and has economic characteristics similar to a flat rate income tax or a broad-based consumption tax⁶⁹. Reducing the Territory's reliance on payroll tax would have negative impacts on economic growth if lost revenue were to be made up through increases to other, less efficient, taxes particularly as the Territory does not levy a land tax. The alternative, a permanent reduction in own-source revenue, is counter to the pressing need to return the budget balance.

Recent research has found no evidence of firms clustering below the payroll tax threshold in the Territory⁷⁰. Compared to other jurisdictions, the Territory has a relatively high payroll tax threshold, and a tax rate in line with the other states and territories (Table 9). As a consequence, a relatively small share of Territory employment is subject to payroll tax, when compared to other jurisdictions⁷¹. Additionally, measures introduced in the 2018 Budget, providing a payroll tax exemption for Territory resident employees starting new jobs from 1 May 2018 to 30 June 2020, have further reduced the incidence of payroll tax on Territory business.

Table 9: Payroll tax rates and thresholds, 2018-19

	Tax rate (%)	Threshold (annual payroll)
Northern Territory	5.50%	\$1.5 million
New South Wales	5.45	\$850 000
Victoria	4.85%	\$650 000
Queensland	4.75	\$1.1 million
South Australia	0-4.95% ¹	\$1.5 million
Western Australia	5.50%	\$850 000 ²
Tasmania	4%/6.1 % ³	\$1.25 million/\$2 million
Australian Capital Territory	6.85%	\$2 million

1 SA has a variable rate up to 4.95%

2 WA threshold declines and phases out at \$7.5 million

3 Tasmania operates a two-bracket system.

Source: State and territory payroll tax legislation

Mining royalties

Mining royalties are the second largest contributor to Territory own-source revenues, providing \$336 million in 2017-18. During the interim report stakeholder engagement process, it was asserted that the introduction of minimum royalties and the Territory's profit-based approach more broadly is impeding investment in the Territory.

⁶⁹ Webb, R., *Economic Effects of Payroll Tax*, 2009, accessed February 2019 (https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BN/0910/PayrollTax)

⁷⁰ Ralston, B., *Does Payroll Tax Affect Firm Behavior?*, 2018, Treasury Working Paper, The Treasury, Australian Government, accessed February 2019 (<https://treasury.gov.au/publication/p2018-t280988/>)

⁷¹ Northern Territory Government, *Northern Territory Revenue Discussion Paper*, 2018, accessed February 2019 (<https://revenuepaper.nt.gov.au/documents>)

Mining royalties in the Territory are usually payable under a profit-based scheme set out in the *Mineral Royalty Act*⁷². Other states generally use output-based royalty schemes that impose a royalty rate on the value of production (ad valorem) or on the tonnage extracted.

In the 2018 Budget, the Territory Government introduced a minimum royalty based on the gross value of mineral production to ensure all mines in the Territory make a financial contribution for the extraction of the Territory's non-renewable resources. The new arrangements commence from 1 July 2019 at a rate of 1 per cent, increasing to 2.5 per cent over the first three years of production of each royalty payer. The minimum royalty requirements were developed in response to community concerns about:

- the ability of small mines to extract the Territory's non-renewable resources for brief periods before going into care and maintenance or closing without paying royalties
- the potential for some large mature mines to be in non-royalty paying situations in certain years despite high production values.

A major difference between the Territory's profit-based arrangements and ad valorem schemes is that the Territory's royalty revenues are highly correlated with commodity prices, generating higher revenues when mines are most able to afford the cost. In general, profit-based arrangements are considered to be more economically efficient than ad valorem equivalents as they are less likely to distort investment decisions by impeding otherwise commercially viable projects. Conversely, ad valorem schemes typically have lower administration and compliance costs.

Since the 2018 Budget announcement, mining projects have continued to progress throughout the Territory, including a new milling facility in Tennant Creek (Emmerson Resources Ltd/Territory Resources Ltd), a new separation plant (Arafura Resources), the reopening of the Harts Range mine, continuation of the ilmenite mining campaign in the Roper region (Australian Ilmenite Resources Pty Ltd), and the grant of a mineral lease to develop the Finnis River lithium project (Core Lithium Ltd). Other projects, such as TNG Ltd and Verdant Minerals Ltd, are continuing to advance with regulatory approvals.

The Territory's royalty rate of 2.5 per cent compares favourably to the headline rates imposed in other Australian jurisdictions, where ad valorem rates range between 2.5 per cent and 7.5 per cent, depending on the type of mineral commodity (Table 10).

⁷² Onshore petroleum royalty is payable based on the value of the petroleum at the point of extraction.

Table 10: Comparison of mineral royalty rates

	WA	NSW	VIC	QLD	SA	TAS	NT
Iron ore	Beneficiated: 5.0% Fines: 7.5% Lump: 7.5%	4.0% of the ex-mine value	2.75% of net market value	\$1.25 per tonne plus 2.5% of value above \$100 per tonne	5.0% of net market value	1.9% on net sales plus profit royalty (capped to 5.35% of net sales)	20.0% of net value of mine's production value
	Ad valorem	Ad valorem	Ad valorem	Hybrid	Ad valorem	Hybrid	Profit
Gold	2.5% of royalty value ¹	4.0% of the ex-mine value	Nil	Variable rate (between 2.5% and 5.0%) depending on average metal prices	3.5% of net market value if in a metal form, concentrates at 5.0%	1.9% on net sales plus profit royalty (capped to 5.35% of net sales)	20.0% of net value of mine's production value
	Ad valorem	Ad valorem	Nil	Ad valorem	Ad valorem	Hybrid	Profit
Manganese	Manganese ore: 7.5% Beneficiated: 5.0%	4.0% of the ex-mine value	2.75% of net market value	2.7% of value Royalty reduced by 35% if processed in QLD to a metal content of at least 75%	5.0% of the ex-mine gate value for concentrate or 3.5% of the ex-mine gate value if in a refined metal form	1.9% on net sales plus profit royalty (capped to 5.35% of net sales)	20.0% of net value of mine's production value
	Ad valorem	Ad valorem	Ad valorem	Ad valorem	Ad valorem	Hybrid	Profit

¹ First 2,500 ounces produced by each project per annum are exempt. Royalty value is calculated for each month by multiplying the total gold metal produced during that month by the average of the gold spot prices for the month in Australian Dollars.

Source: Other state and territory legislation

Property taxes

The absence of a land tax in the Territory is an obvious gap in the Territory Government's own-source revenue base.

Land tax is widely acknowledged to be an economically superior approach to property taxation in comparison to stamp duty (which the Territory does levy) as well as being fairer (with stamp duty, families of similar means can pay widely different amounts of property tax simply because one family moves more often). All other jurisdictions levy a land tax and the Australian Capital Territory is currently in the process of replacing stamp duties with broad based property taxes over a 20-year period.

The Commonwealth Grants Commission estimates that if the Territory levied a land tax at national average rates, it would raise around \$80 million in additional own-source revenue. Notwithstanding, the panel has not made any recommendation regarding land tax in recognition of the Territory Government's stated policy position on the matter.

Proposed reform

It is important that the Territory Government grows its own-source revenue base to reduce its reliance on Commonwealth funding. Nonetheless, the Territory should

maintain a competitive taxation environment and revenue raising effort relative to other jurisdictions to encourage investment, create jobs and attract business to the Territory.

Gambling taxation

Gambling activities are generally taxed at high rates as they are often restricted by regulation, which reduces competition and enables higher profits (that is, monopoly pricing) in comparison with competitive markets. The taxation arrangements for bookmakers and betting exchanges in the Territory are an exception to this, as they were set in direct response to competition from other states.

In the Territory, bookmakers and betting exchanges pay tax at a rate of 10 per cent on gross profits, capped at a maximum of 500 000 revenue units (currently \$575 000). In 2017-18, bookmakers paid about \$6.5 million in bookmaker tax, with many operators reaching the cap within the first few months of operation each year.

There appears to be scope to raise additional own-source revenue through reform to bookmaker and betting exchange taxes through adjustments to the annual cap and/or tax rate. Given the Territory also operates a highly favourable regulatory environment, which of itself makes the Territory an attractive destination for gambling operators, it is likely that reasonable changes in the annual cap and/or tax rate will not have significant economic ramifications for the Territory.

Payroll tax

Payroll tax is a more stable source of revenue than other Territory taxes, such as stamp duties, and is relatively efficient to administer as payroll tax rules, apart from rates and thresholds, have been harmonised across the states and territories. Overall, there appears to be little evidence to support the need for significant reform of the Territory's payroll tax arrangements.

Mining royalties

Profit-based royalties are widely accepted as being more efficient and equitable for miners. However, a number of mines in the Territory have paid little or no royalties meaning that the Territory has not been appropriately compensated for the extraction of some of its non-renewable resources. The changes in the 2018 Budget seek to balance an appropriate return to the community for the extraction of non-renewable resources with a fair return to the producer.

The introduction of the minimum royalty has not altered the integrity of the Territory's profit-based scheme and the only miners that will be affected are those who would ordinarily pay little or no royalty under the existing scheme. Overall, there appears to be little evidence to suggest that the introduction of minimum royalties or the profit-based approach more broadly is impeding mining investment in the Territory.

Key issues

The proposed changes to gambling taxation are likely to be criticised by operators in the current industry who may be disadvantaged by such reform. This will require careful stakeholder engagement and potentially transitional arrangements.

It is also likely that some stakeholders will be disappointed with the panel's conclusions concerning payroll tax and mining royalties. However, the panel considers that the

evidence presented, including the asserted impacts on economic activity, is insufficient to warrant significant reforms to these taxes at this time.

Recommendations

- 5.7.1 Maintain a competitive taxation environment and revenue raising effort relative to other jurisdictions.
- 5.7.2 Reform gambling taxation arrangements for bookmaker and betting exchange taxes.

Management of public investments

Current situation

Government owned corporations comprise the bulk of the Territory Government's public investments. The Territory also holds significant assets related to the Motor Accidents (Compensation) Commission and has a range of equity investments, including shared equity in residential property in the Territory through the NT Home Ownership scheme.

As a general principle, the Territory's public investments should be providing sustainable returns in the form of dividends and taxes to justify the Territory's ongoing investment (or treatment as a government owned corporation).

Government owned corporations

Government owned corporations operate under the *Government Owned Corporations Act* and the Government Owned Corporations Corporate Governance and Reporting Framework⁷³, which defines governance, reporting, investment and corporate planning obligations.

The key objectives of the government owned corporations, as outlined in the framework, are to operate a government business at least as efficiently as any comparable business and provide sustainable returns to the Territory Government on its investment. However, over the past two decades, the Territory's government owned corporations have persistently failed to achieve these objectives and have operated at a net cost to Territory taxpayers (in addition to community service obligation funding).

The government owned corporations also operate within a legislative model based on the separation of the monopoly business (networks) from contestable businesses (generation and retail), to foster competition in generation and retail. This model was developed as part of national competition policy reform 25 years ago and adopted by all Australian jurisdictions (and most developed nations). The government owned corporations are also required to comply with competitive neutrality principles (that is, not benefiting from their government ownership to the detriment of a competitor business) and operate at arms length from each other.

⁷³ The framework, together with the *Government Owned Corporations Act*, the enabling legislation for each corporation, and the Territory's Policy Statement on Competitive Neutrality establish the operating and accountability framework for government owned corporations in the Territory. The framework is issued by the Treasurer, as shareholding minister, under Section 8 of the *Government Owned Corporations Act*.

In September 2013, the former Territory Government approved the structural separation of the Power and Water Corporation's (PWC) monopoly and contestable businesses into standalone government owned corporations, with separate boards.

Legislation to facilitate the structural separation of PWC's retail and generation functions and establish two new government owned corporations, Territory Generation and Jacana Energy, commenced on 29 May 2014, with operational commencement from 1 July 2014.

The intent of structural separation was to:

- help identify efficiencies in the relative businesses
- increase accountability for delivering improved financial and non-financial performance
- encourage competition in the Territory's electricity retail and generation sectors.

Prior to structural separation, the financial performance and position of PWC was deteriorating rapidly, with significant tariff increases or additional community service obligation funding from the government expected to be required to achieve financial sustainability if broad reforms were not adopted.

Subsequent to structural separation, the financial performance of the government owned corporations has been mixed. The performance of PWC and Jacana has stabilised and is trending towards improvement, with increasing shareholder equity and/or dividends post structural separation. Conversely, Territory Generation has almost entirely eroded the Territory's initial shareholder equity (\$184 million), paid limited dividends and received further equity injections (\$30 million).

Tables 11 to 13 illustrate the growth in government owned corporation staffing and employee benefit costs since 2012-13. While employee numbers have collectively declined from a peak in 2016-17, the total number remains higher than pre-separation levels. Of note, the average cost per employee at Territory Generation (at \$164 000 per annum) is equivalent to a SAO2 position and significantly more than PWC.

Table 11: Government owned corporations staff numbers pre and post structural separation

	2012-13	2013-14	2014-15 ¹	2015-16	2016-17	2017-18
	FTE	FTE	FTE	FTE	FTE	FTE
PWC	1 061	1 055	924	961	953	910
Territory Generation	-	-	169	194	219	229
Jacana Energy	-	-	14	40	60	63
Total	1 061	1 055	1 108	1 195	1 232	1 202

¹ Reflects a period when a service level agreement existed between Jacana and PWC for transition services (including corporate, financial, regulatory and call centre services).

Source: Northern Territory Government payroll data, annual average

Table 12: Government owned corporations employee benefit costs

	2012-13	2013-14	2014-15 ¹	2015-16	2016-17	2017-18
	\$M	\$M	\$M	\$M	\$M	\$M
PWC	100.3	103.3	88.3	98.1	94.5	98.2
Territory Generation	-	-	20.5	26.9	33.9	37.6
Jacana Energy	-	-	2.5	5.7	7.2	7.8
Total	100.3	103.3	111.3	130.8	135.6	143.7

1 Reflects a period when a service level agreement existed between Jacana and PWC for transition services (including corporate, financial, regulatory and call centre services).

Note: Total employee benefit expenses as reported in annual reports. PWC's employee benefit expenses are at the consolidated level, which includes Indigenous Essential Services.

Source: Department of Treasury and Finance

Table 13: Government owned corporations employee benefit costs per FTE

	2012-13	2013-14	2014-15 ¹	2015-16	2016-17	2017-18
	\$000	\$000	\$000	\$000	\$000	\$000
PWC	94.6	97.8	95.5	102.1	99.2	108.0
Territory Generation	-	-	121.2	139.1	154.7	164.0
Jacana Energy	-	-	172.1	142.2	119.8	123.1
All government owned corporations	94.6	97.8	100.4	109.5	110.0	119.5

1 Reflects a period when a service level agreement existed between Jacana and PWC for transition services (including corporate, financial, regulatory and call centre services).

Source: Department of Treasury and Finance

The Territory Government, through the Treasurer as shareholding minister, sets financial targets for the government owned corporations through the Statement of Corporate Intent (SCI) process. The SCIs set out the nature and scope of each government owned corporation's business activities, objectives and strategies, risk management, capital investment plans and performance targets over a four-year period.

Under the *Government Owned Corporations Act*, the board of the corporation is accountable to the shareholding minister for the financial performance of the corporation.

Other commercial assets

The Territory Government does not currently have a commercial asset management framework. This hinders the government's ability to manage commercial assets strategically and effectively, and optimise the balance sheet. Most other Australian jurisdictions have asset management frameworks and/or asset disposal policies.

Proposed reform

Government owned corporations

Structural separation has played an important role in arresting the decline in government owned corporation performance, with both Jacana and PWC currently implementing substantial reform programs that, if successfully delivered, will provide sustainable returns to the Territory Government on its investment over the medium term. Conversely, Territory Generation is expected to continue to impair rather than support the Territory's financial position and requires urgent reform to avoid the need for further significant funding injections.

The SCI process is critical to giving the Territory Government visibility around the performance of its government owned corporations. The SCIs should set out detailed

benchmarks and targets to ensure the Territory Government's investments are being appropriately managed, including a focus on expenditure reduction where relevant. Given that there have been large variations in performance and actions against Territory Generation's previous SCI targets, and the reporting of these variations to the minister has not been timely, an increased focus on transparency and accountability also appears necessary if the SCI process is to be of value.

Increasing accountability for government owned corporation performance against their SCIs will be critical. Similar to the recommendations earlier in this report regarding instilling budget discipline, the Territory Government should clearly outline the sanctions for non-compliance with the SCI. Ultimately, the shareholding minister will also need to be prepared to undertake harsher measures for repeated non-compliance.

Other commercial assets

Decisions relating to commercial assets tend to have long-term implications. In line with other jurisdictions, it is recommended that the Territory Government develop a commercial asset management framework based on the following design principles:

- decisions should be based on service delivery needs and outcomes (that is, service delivery should be at the core of commercial asset management)
- commercial asset management should be integrated into relevant government policy and planning frameworks, as well as budget and evaluation processes, and aligned with government objectives
- decisions should take into account performance through monitoring and measurement of key performance indicators, as well as evaluating all options that could address the service delivery needs, including engaging the private sector
- ownership, control, accountability, responsibility and reporting requirements should be clearly established, communicated and implemented, including for outsourced services
- information management systems should meet all government decision-making and reporting requirements, and asset related risks should be fully integrated into the organisational risk management framework
- commercial asset management activities should be undertaken as part of the government's overall resource allocation and management framework.

An integrated commercial asset management framework is a useful tool for governments to decide whether it is appropriate to buy or sell an asset. These decisions need to take into account service delivery needs, corporate objectives, financial and budgetary constraints and the government's overall resource allocation objectives. Most importantly, decisions regarding asset ownership and retention should always be service delivery driven. This means if a commercial asset is not expected to contribute effectively and efficiently to any current or future service delivery needs, it should not be held or used by the public sector.

Once a commercial asset management framework has been developed, the Territory Government should undertake a review of major commercial assets, with immediate priority given to:

- government owned corporations

- NT Home Ownership
- Motor Accidents Compensation scheme
- Land Development Corporation
- land titles ICT systems and data.

A thorough evaluation of all options to achieve the government's desired service delivery outcomes, including engaging the private sector, taking into account the lifecycle costs, benefits and risks associated with each option would allow the Territory Government to make informed decisions around asset retention or disposal.

Given the need to reduce the Territory's debt levels, it is important that any proceeds from asset disposal remain on the Territory's balance sheet, either through repaying debt or reinvesting in economic enabling infrastructure.

Key issues

Government owned corporations

The SCI process must be used to agree on firm targets, including recurrent cost savings where a government owned corporation is not operating as efficiently as comparable businesses. During this process, the Territory Government will need to take a first principles approach that applies a public investment lens over the SCI to determine whether each entity is capable of effectively operating as a government owned corporation.

Other commercial assets

Disposal of public assets can be an emotive issue and will require the Territory Government to clearly articulate the public benefits of any proposed asset disposal. Any industrial impacts will also require careful management.

Recommendations

- 5.7.3 Increase accountability for the performance of government owned corporations against their statements of corporate intent, including developing clear sanctions for non-compliance.
- 5.7.4 Develop a commercial asset management framework.
- 5.7.5 Undertake a review of existing commercial assets in accordance with the commercial asset management framework.

Pricing of government services

Current situation

The Territory Government lacks consistent charging and cost recovery arrangements, leading to unrealised revenue opportunities across agencies, and a diminished own-source revenue raising capacity. This is a particular issue for government owned corporations, which receive community service obligation funding of around \$95 million per annum (excluding Northern Territory Concession Scheme related funding) to provide services at below cost price (Table 14).

Table 14: Community service obligations

	2017-18	2018-19
PURCHASING AGENCY/Provider/Description	Estimate	Budget
	\$000	\$000
DEPARTMENT OF TREASURY AND FINANCE	105 470	94 863
Electricity Retailers (including Jacana Energy)		
Regulated retail electricity tariffs	80 043	71 865
Power and Water Corporation		
Regulated retail water and sewerage tariffs	6 727	6 798
Gas Supply Agreement	18 700	16 200
TERRITORY FAMILIES	24 200	24 200
Power and Water Corporation		
Northern Territory Concession Scheme	8 628	8 628
Jacana Energy		
Northern Territory Concession Scheme	15 572	15 572
DEPARTMENT OF TOURISM , SPORT AND CULTURE	9 174	7 744
Territory Wildlife Parks		
Territory Wildlife Park	4 727	3 827
Alice Springs Desert Park	4 447	3 917
DEPARTMENT OF LOCAL GOVERNMENT, HOUSING AND COMMUNITY DEVELOPMENT	3 657	3 657
NT Home Ownership		
Home ownership incentives	3 657	3 657
TOTAL	142 501	130 464

Source: Department of Treasury and Finance, 2018 Budget Paper No. 3

Most jurisdictions have developed charging or cost recovery guidelines, which are similar to, and in many cases based on, the existing Commonwealth Government framework. However, the Territory largely follows a process of relevant ministerial approval for pricing of fees and charges, without having a central framework providing clear guidelines around how to develop and review charging arrangements.

The Commonwealth framework requires a risk assessment for regulatory charges, with high risk charges approved by the Finance Minister. The Commonwealth has also implemented a system of periodic reviews of all charging activities at least every five years, in accordance with a published schedule of portfolio charging reviews. Ten-yearly reviews, consistent with the sunseting of regulations and requirements for regulatory impact assessments, are typical in other states and territories. This ensures that charges are relevant, commensurate with government effort, accurate and effective.

Common elements of cost recovery guidelines are that pricing should reflect the principles of equity, efficiency, transparency, performance, simplicity, and policy consistency. Charges are assessed on a case-by-case basis, ensuring that they are cost effective, efficient and have viable proportionality between the generated revenue and costs of administration.

Government fees and charges generally fall into three categories: regulatory, resource or commercial:

- **Regulatory** charges exist where the government aims to control behaviour, manage risk and protect the community (for example, licensing of alcohol outlets).
- **Resource** charges relate to the provision of specific rights, privileges, or access to public resources (for example, licences to access IP or natural resources), equipment or infrastructure, potentially involving commercial contracts or legislation.
- **Commercial** charges are for the supply of government goods or services in an actual or potential market, usually with some level of user discretion as to whether the good or service is consumed (for example, sale of publications or data).

Proposed reform

The Territory Government should develop a whole of government pricing framework, using the Commonwealth's existing framework as a general guide. This will include a process for selecting an appropriate pricing model, which will generally take the form of either cost recovery, value-based or commercial pricing:

- **Cost recovery**⁷⁴ is a pricing model that may be imposed on a full cost recovery basis, where users are charged the efficient costs of a particular government activity, or partial cost recovery, where users are charged some of the efficient costs of a particular government activity.
- **Value-based** pricing involves a charge being imposed in relation to access to a public resource that confers a clear right or privilege (for example, royalty payments or access fees for use of a specific public resource).
- **Commercial** pricing involves a charge based on market conditions for supplying government services to users in an actual or potential market. Prices may be based on similar market products as proxies, market demand, subscription fees for infinite service use, or charging premium prices for advanced services.

By developing and enforcing a stronger and more consistent approach to pricing government services, the Territory can better manage its assets to reduce debt and promote efficiency.

Ongoing monitoring of the appropriateness of fees and charges outside of the regulatory review cycle is also warranted, particularly in high risk areas, to avoid the build-up of imbalances between the cost of service provision and the indexed price.

Key issues

It is important to acknowledge that fees and charges may impact on disadvantaged Territorians. Well targeted concession arrangements are therefore appropriate to ensure that services remain affordable.

⁷⁴ There are two types of cost recovery charges: fees and levies. Cost recovery fees are a charge for a good, service or regulation to a specific individual or organisation. Levies are a tax imposed via a separate taxation Act when a good, service or regulation is provided to a group of individuals or organisations as opposed to a specific individual or organisation.

Recommendation

5.7.6 Develop a government services pricing framework.

Commonwealth revenue

Current situation

The Australian federal system often blurs service delivery responsibility between governments. This is particularly the case in the Territory where the Commonwealth necessarily plays an extensive role in closing the gap in Aboriginal disadvantage and administers Territory specific legislation such as the *Aboriginal Land Rights Act* (Commonwealth). As a territory, the Commonwealth can also direct the activities of the Territory Government to a larger extent than for state governments.

In addition to its broader constitutional responsibilities, the Commonwealth has a long-term agenda of investment and support for growing the northern Australian economy as outlined in its *Our North, Our Future: White Paper on Developing Northern Australia*. The Commonwealth also has a number of strategic investments in defence assets across the Territory.

Aside from GST revenue, the Commonwealth supports service delivery in the Territory through a range of payments to the Territory Government for specific purposes (tied grants) as summarised in Table 15:

Table 15: Specific purpose payments by sector, 2018-19 to 2021-22 (\$M)

	2018-19	2019-20	2020-21	2021-22
Health	303	342	364	392
Education	410	428	441	459
Skills and workforce development	15	15	15	15
Community services	123	55	45	47
Affordable housing	157	134	134	133
Infrastructure	217	175	125	87
Other ¹	44	48	40	42
Total²	1 269	1 195	1 165	1 175

¹ Includes financial assistance grants for local government.

² Total payments may not equal the sum of individual items due to rounding.

Source: Commonwealth Government, Mid-Year Economic Fiscal Outlook 2018-19

The Territory has also historically received substantial support from the Commonwealth to assist in addressing Aboriginal disadvantage. For example, on 21 June 2007, the Commonwealth announced the Northern Territory Emergency Response (NTER), with broad measures to protect Aboriginal children in the Territory from sexual abuse and family violence. The NTER package and the Closing the Gap in the Northern Territory National Partnership Agreement were estimated to provide \$2.1 billion over five years, from 2007-08.

After an evaluation of the NTER package and nearing expiry of the legislative basis for the Intervention, a 10-year package of initiatives was announced to replace the NTER. The resulting Stronger Futures in the Northern Territory (SFNT) package was introduced, providing an estimated \$3.45 billion over 10 years from 2012-13 to expiry in 2022-23,

aimed at improving outcomes for Aboriginal people in the Territory, including closing the gap on Indigenous disadvantage.

SFNT incorporated provisions for a review of the Territory's fiscal capacity to support the progressive transfer of fiscal responsibility of services delivered under the agreement every two years. No transfers of responsibility were made under the agreement.

In 2014, the Territory entered into negotiations to vary the Implementation Plans under SFNT, to better meet its objectives. Subsequently, a new, more streamlined agreement, Northern Territory Remote Aboriginal Investment (NTRAI), was announced in the Commonwealth's 2015 Budget, effectively replacing SFNT and incorporating more realistic and achievable milestones, with an outcomes focus.

NTRAI is expected to provide around \$987 million to the Territory, excluding non-government school payments, between 2015-16 and 2021-22. The funding over the life of the agreement follows a similar path as SFNT, with a downward taper in the later years reflecting the Commonwealth's expectation that responsibility for funding these services will progressively transition to the Territory (Table 16).

Table 16: Estimated financial contributions under SFNT and NTRAI, year ended 30 June

	2012 ¹	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
SFNT (original)	26.9	98.7	197.1	180.1	182.3	171.4	166.6	109.0	101.2	97.3	98.2
NTRAI (new)					330.8 ²	160.7	153.6	94.5	85.6	80.3	80.6

1 An advance payment made in 2011-12 for services to be delivered in 2012-13.

2 Funding in 2015-16 included a payment of \$154.8 million for the Territory to assume responsibility for the provision of municipal and essential services.

Source: Department of Treasury and Finance

Given the Territory's fiscal challenges over the medium term and the Commonwealth's responsibilities, it is essential that the Commonwealth continue its commitment to closing the gap in Aboriginal disadvantage.

Direct Commonwealth expenditure also has a significant impact on state and territory services in areas such as housing (Commonwealth Rent Assistance), disability (National Disability Insurance Scheme), aged care (residential care subsidies and supplements), health (Medicare, private health rebates and Pharmaceutical Benefits Scheme) and welfare (Centrelink payments and CDEP).

The Territory receives a below average share of a number of Commonwealth revenue streams due to a range of factors including market characteristics and the way NTPS services are delivered (for example, the Territory delivers the bulk of public housing directly rather than through the community housing models common in other jurisdictions that can leverage Commonwealth Rental Assistance). This results in a greater burden being placed either directly or indirectly on the Territory budget (for example, inadequate aged care funding can result in unnecessary and extended hospital stays).

In addition, the Territory Government has an outstanding self-government debt to the Commonwealth of around \$209 million, despite the infrastructure deficit also inherited on self-government. The Territory is also managing the legacy of a generous defined benefit superannuation scheme inherited from the fiscally stronger Commonwealth on self-government (see boxed information below).

Legacy superannuation scheme liability

On self-government, new NTPS employees and those transferring from the Commonwealth public service were members of the Commonwealth Superannuation Scheme (CSS), a very generous defined benefit scheme. This presented the new Territory Government with a sizable superannuation liability.

Under a 1984 agreement with the Commonwealth, the Territory became liable for a portion of the CSS pensions of former Territory Government employees, specifically:

- the Commonwealth would be liable for any part of a person's CSS pension arising from Territory Government service between 1 July 1978 and 30 June 1984
- the Territory Government would be liable for the part of a person's CSS pension that arose from their Territory Government service on or after 1 July 1984.

Under the agreement, the Commonwealth was to provide the Territory with the financial capacity to meet its liability.

In 1985, the Commonwealth unilaterally changed the agreement and removed its commitment to provide the Territory with the financial capacity needed to meet its CSS pension liabilities. The then Prime Minister Bob Hawke suggested that the Territory Government should instead use the Commonwealth Grants Commission processes to obtain the needed financial capacity.

The Commonwealth Grants Commission subsequently provided some capacity for the Territory to offset a portion of CSS member costs during their term of employment. However, this approach was not adequate to fund the liability for ongoing pensions. In the 2017 Update, the Commonwealth Grants Commission ceased providing the Territory with any assistance to meet CSS costs.

The Territory's CSS pension obligations in 2018-19 are \$91 million. As at 30 June 2018, the total CSS liability was \$2.15 billion.

The Territory Government established its own defined benefit scheme in place of the CSS from 1 October 1986, and closed it to new members on 10 August 1999.

The Territory derives little benefit from the CSS given most retirees leave the Territory.

Proposed reform

The Territory Government needs to maximise the flow of Commonwealth funding to the Territory to ease the burden on the Territory budget. This requires the Territory to identify areas, such as Commonwealth Rental Assistance and Medicare, where the share of funding flowing into the Territory is not commensurate with the Territory's population share or sociodemographic needs. The Territory Government should develop strategies to address the shortfalls through:

- market reforms
- service delivery reforms
- system/process reforms
- direct negotiation with the Commonwealth

To drive this work the Territory should commission an independent review of Commonwealth expenditure in the Territory, including the funding required to close the gap in Aboriginal disadvantage.

Given the Territory's underlying infrastructure deficit in comparison with other jurisdictions, and the level of superannuation debt effectively inherited by a small developing economy with a limited own-source revenue base on self-government, the Territory should seek relief of outstanding self-government debt from the Commonwealth. This is particularly the case given that the distribution of funding under the Commonwealth Grants Commission processes does not take into account the historical backlog in need for capital expenditure in Aboriginal communities that pre-dated self-government.

Key issues

Optimising Commonwealth revenues should be done in partnership with the Commonwealth Government to ensure sustainable benefits for the Territory.

The Commonwealth Grants Commission takes into account that it costs more, on average, to provide services to Aboriginal people in the Territory but does not adequately take into account the infrastructure deficit⁷⁵. This is evidenced by statements from Alan Morris, the former Chairman of the Commonwealth Grants Commission, in 2003 that highlighted that the principle of fiscal equalisation was not sufficient to provide 'catch-up' capacity to the Territory⁷⁶.

Recommendations

5.7.7 Commission an independent review of areas where Commonwealth expenditure in the Territory is lower than other jurisdictions (for example, Medicare) and where funding is required to close the gap in Aboriginal disadvantage.

5.7.8 Seek relief of debt inherited from the Commonwealth on self-government.

⁷⁵ Yu, P., Duncan, M. and Gray, B., Northern Territory Emergency Response: Report of the NTER Review Board, 2008, accessed February 2019 (<https://apo.org.au/sites/default/files/resource-files/2008/10/apo-nid551-1221101.pdf>)

⁷⁶ Morris, A., Powerhouse or Mendicant? Is the Territory an Engine of Growth or a 'drag' on Federation?, 2005 in Lea, T and Wilson, B. (eds), The State of the North: A Selection of Papers from the 2003 Charles Darwin Symposia, Charles Darwin University Press

Reform map 7: Revenue optimisation

A competitive and sustainable own-source revenue base, commercial management of public investments, robust government pricing policies and a fair share of Commonwealth funding.

Own-source revenue

Recommendation

5.7.1: Maintain a competitive taxation environment and revenue raising effort relative to other jurisdictions.

Recommendation

5.7.2: Reform gambling taxation arrangements for bookmaker and betting exchange taxes.

Management of public investments

Recommendation

5.7.3: Increase accountability for the performance of government owned corporations against their statements of corporate intent, including developing clear sanctions for non-compliance.

Recommendation

5.7.4: Develop a commercial asset management framework.

Recommendation

5.7.5: Undertake a review of all commercial assets in accordance with the commercial asset management framework.

Pricing of government services

Recommendation

5.7.6: Develop a government services pricing framework.

Commonwealth revenue

Recommendation

5.7.7: Commission an independent review of areas where Commonwealth expenditure in the Territory is lower than other jurisdictions (for example, Medicare) and where funding is required to close the gap in Aboriginal disadvantage.

Recommendation

5.7.8: Seek relief of debt inherited from the Commonwealth on self-government.

6 | Reform implementation and monitoring

Key points

- A planned approach, with strong governance, monitoring and evaluation will be important to successfully return the Territory Budget to balance and maintain debt at a sustainable level.
- A staged implementation process is proposed, incorporating phases of reform linked to the annual budget development process.
- Some reforms can be rapidly developed and implemented as part of the 2019 Budget (phase 1). Others, which are more complex and require major structural or system change and consultation, will take time to develop and implement, and should be implemented through 2020 Budget (phase 2) and 2021 Budget (phase 3).
- A strong governance model will need to be set up to transparently and regularly report on progress on the reforms. This should include the establishment of a Budget Repair Standing Committee of agency chief executive officers, accountable for delivering the reform agenda.
- A Budget Repair Office should be established within the Department of Treasury and Finance to coordinate reform implementation, ongoing monitoring and reporting.
- All staff who will be involved in implementing these recommendations will need strong leadership skills and a tenacity to get the reforms implemented in a timely manner. Steadfast ministerial and chief executive support will also be required as the program will present difficult adjustments to many employees.

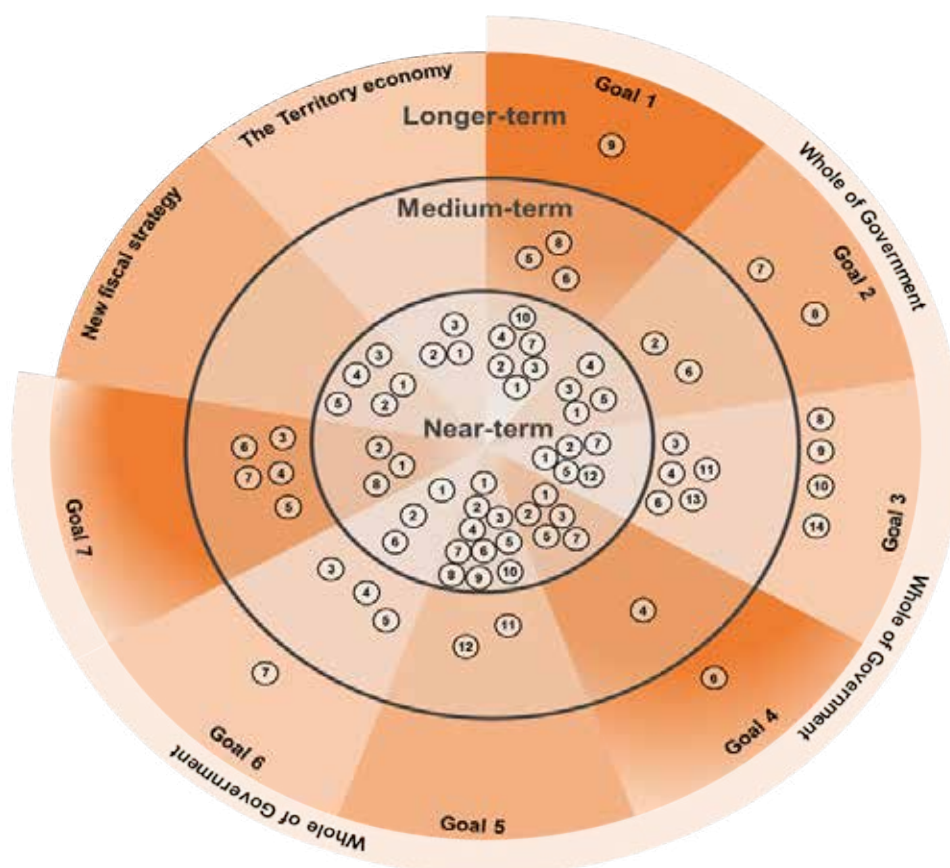
Implementation

This report contains an extensive range of recommendations, which if fully implemented will impact the entire NTPS. Given the breadth and complexity of the reform package, a planned approach with strong governance, monitoring and evaluation will be important to successfully achieve the reform objectives.

The recommendations in this report can be grouped into three focus areas (Figure 11):

1. **economic reforms** to enhance productivity and support private investment
2. **fiscal strategy reforms** to reset government's fiscal objectives
3. **whole of government structural reforms** to support the fiscal strategy, including
 - increasing financial accountability and transparency (goal 1)
 - improving financial management policies and processes (goal 2)
 - reforming the NTPS to deliver a sustainable workforce (goal 3)
 - organising agencies and functions more efficiently and effectively (goal 4)
 - using evidence-based decision-making to drive effectiveness and efficiency (goal 5)
 - digitally transforming the NTPS to drive innovation and reduce costs (goal 6)
 - optimising revenue to support budget repair (goal 7).

Figure 11: Indicative implementation timing by reform area



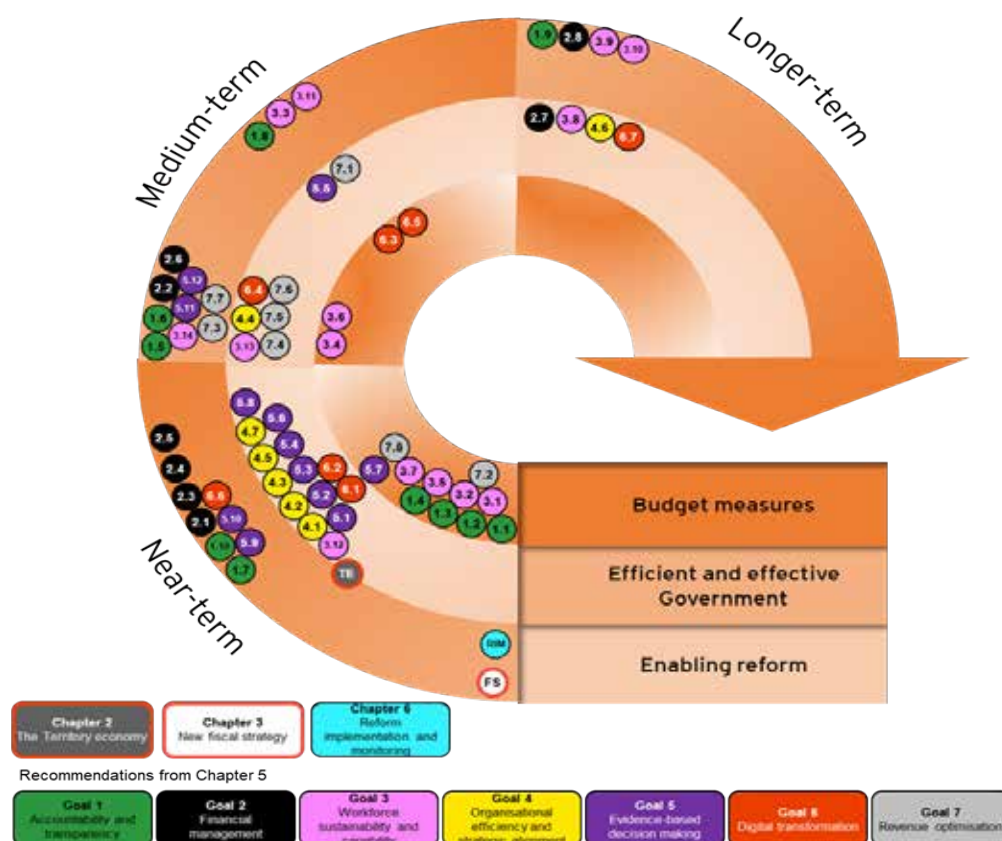
It is proposed that the budget be returned to balance through a staged process, incorporating phases of reform linked to the annual budget development process as follows:

- completion of the Fiscal Strategy Panel Final Report on Budget Repair (Stage 1 – February/March 2019)
- the Territory Government's response to the Final Report (Stage 2 – April 2019)
- reform implementation (Stage 3 – 2019 Budget onwards):
 - reform phase 1: 2019 Budget
 - reform phase 2: 2020 Budget
 - reform phase 3: 2021 Budget

Figure 12 illustrates the reform areas, which contain a number of actions that will:

- deliver direct and quantifiable impact on the budget through immediate **budget measures**
- identify more efficient and effective service delivery that improves outcomes for Territorians and business and aligns to the Territory Government's strategic priorities through **efficiency and effectiveness measures**
- create the right authorising and operating environment that will support the Territory Government to deliver the reforms through strong **enabling measures**.

Figure 12: Recommendations by reform type and indicative timing



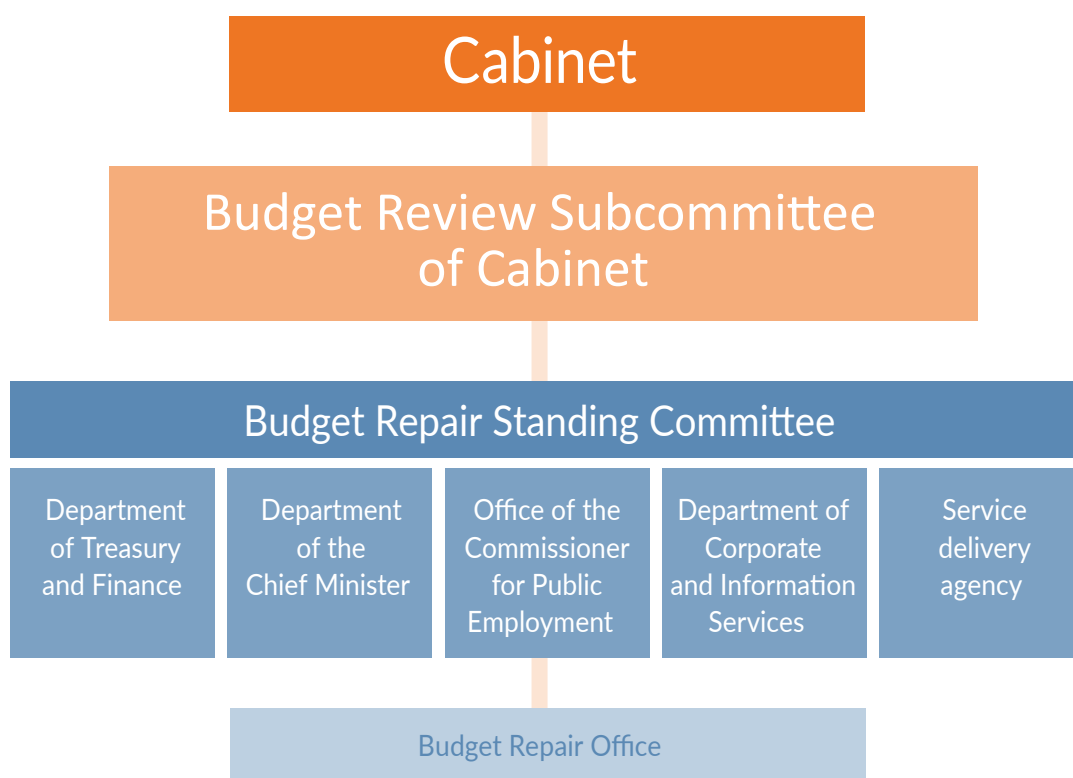
The process will work in parallel with the Territory Government's Program Review, which will also feed into the 2019 Budget. The Program Review is intended to create more immediate fiscal space to pursue government's strategic priorities without worsening the Territory's key fiscal aggregates from those published in the 2018 Mid-Year Report.

Given the complexities involved with a number of the reforms, work will need to start immediately on developing implementation plans for phase 2 and phase 3 reforms. It is important that the Territory Government maintains the momentum for reform over the next three years, particularly given the long-term benefits associated with a number of the more difficult reforms.

Monitoring and governance

A strong governance model will need to be set up to report transparently and regularly on the progress of reforms. It is recommended that the Territory Government establish a Budget Repair Office within the Department of Treasury and Finance to coordinate reform implementation, monitoring and reporting, governed by a Budget Repair Standing Committee (chief executive level) reporting to Budget Review Subcommittee (Figure 13).

Figure 13: Governance model for the monitoring and evaluation of the Fiscal Strategy



The Budget Repair Office would be responsible for:

- coordinating the development of implementation plans for each reform, including monitoring and evaluation plans for the more complex reforms
- reporting and secretariat functions for the Budget Repair Standing Committee
- quarterly progress reports to the Budget Review Subcommittee
- annual progress reports for public release through the budget papers
- coordinating reform evaluations post-implementation.

Recommendations

- 6.1. Adopt a staged process to budget repair, incorporating phases of reform linked to the annual budget development process.
- 6.2. Implement the governance model outlined at Figure 13, including the establishment of a Budget Repair Standing Committee and Budget Repair Office.

A | Fiscal Strategy Panel

terms of reference

Objective

The Fiscal Strategy Panel was established to assist the delivery of the Territory Government's election commitment to return the budget to surplus. This task has been exacerbated by the unexpected and unprecedented reductions in the Territory's GST revenue over the past two years.

In broad terms, the Panel is tasked with delivering:

1. an assessment of the Territory Government's fiscal strategy, medium-term fiscal modelling and proposed overarching reform framework
2. a prioritised action plan to return the Territory budget to a sustainable position over the medium term, including innovative reform opportunities.

The panel reports to Government.

Governance arrangements

Panel members were selected on the basis of their skills and experience in the areas of public and private sector administration and business acumen (particularly in Territory context), and financial and change management.

The panel comprises:

- John Langoulant (Chairperson) – independent reviewer
- Helen Silver – independent reviewer
- Craig Graham – Under Treasurer
- Jodie Ryan – Chief Executive of the Department of the Chief Minister

The panel has scope to draw on the knowledge of other relevant persons as necessary and is also supported by the Department of Treasury and Finance.

Project scope

Part 1: Provide an assessment of the Territory Government's fiscal strategy and proposed overarching reform framework, and identify reform opportunities

- verify the nature and scale of reform necessary to return the Territory Government's budget to balance over the medium term, including identifying key risks, enablers, barriers and timeframes, and reviewing the Territory's medium-term fiscal modelling
- assess the Territory Government's fiscal strategy and proposed overarching reform framework
- develop an interim report for Government outlining a high level whole of government fiscal reform framework and action plan, and identify specific areas for more detailed consideration.

Part 2: Deliver a prioritised action plan to return the Territory budget to balance over the medium term

- engage broader expertise, where necessary, to identify new ideas and innovative reform opportunities that could be adopted to help achieve the Territory Government's fiscal strategy
- deliver a high level roadmap of whole of government reforms to deliver expenditure restraint and improve productivity across the Territory Public Sector through fundamental structural change, including but not limited to, consideration of the following:
 - options for more efficient service delivery, including through automation and digitisation
 - improving productivity, service quality, and value for money through:
 - embedding program evaluation mechanisms in everyday business
 - organisational reviews
 - increasing financial responsibility and accountability across the public service
 - public sector employment reform
 - options to constrain expenditure growth more generally, including reviewing existing policy settings, programs and discretionary spending
 - assessing the adequacy of current budgetary processes and rules in promoting efficient and effective government, disciplined expenditure, medium-term fiscal sustainability and budget accountability and transparency
- develop a final report for Government that provides prioritised action plans, including timeframes, to implement the whole of government reform framework, and an appropriate performance management framework to measure success.

Establishment and duration

The panel is established by Government. The panel's Final Report is due in February 2019. The panel may be retained beyond February 2019 at the discretion of Government.

Reporting

The panel will report to Government as follows:

- Part 1 – the Interim Report by the end of November 2018
- Part 2 – the Final Report by the end of February 2019.

Conflict of interest

All panel members were required to complete a conflict of interest disclosure statement. John Langoulant declared an actual or perceived conflict of interest due to his role as Chair of the Board of Power and Water Corporation. Helen Silver declared an actual or perceived conflict of interest due to her role with Allianz Australia Insurance Limited (which has a management agreement with the Territory's Motor Accidents Compensation Commission). Both panel members managed their actual or perceived conflict by abstaining from discussions concerning government owned corporations (John Langoulant) or the Motor Accidents Compensation Commission (Helen Silver).

B | Summary of recommendations

Recommendations	
Chapter 2 The Territory economy	2.1 Reform the current major projects process to expedite and improve the efficiency of project approvals.
	2.2 Develop a microeconomic reform roadmap with the key objective of making the Territory a globally competitive capital investment destination.
	2.3 Consolidate the major projects, microeconomic reform and investment attraction functions into an Office of Investment Attraction.
Chapter 3 New fiscal strategy	3.1 Retain the twin objectives of the current fiscal strategy but specify that budget repair is the primary objective.
	3.2 Targets under the fiscal strategy should have a more medium to long-term focus.
	3.3 Expand the principles and targets of the fiscal strategy to include government owned corporations.
	3.4 Adopt the new fiscal strategy principles and targets outlined in Chapter 3.
	3.5 Adopt the proposed Charter of Budget Discipline.
Chapter 5 Goal 1 Accountability and transparency	5.1.1 Remove the efficiency dividend exemption from grants and property management expenses across the forward estimates.
	5.1.2 Abolish the efficiency dividend discount.
	5.1.3 Review the wages indexation factor as part of the development of a new wages policy.
	5.1.4 Replace the special demand parameter for hospital and primary health services with a population based indexation factor applied equally across the health department and networks.
	5.1.5 Publish 10-year budget and forward estimates key fiscal aggregate information in Budget Paper No. 2.
	5.1.6 Publish five-year agency output information in Budget Paper No. 3.
	5.1.7 Strengthen the processes and level of ministerial and executive accountability for agency financial performance.
	5.1.8 Establish a parliamentary committee to scrutinize agencies' actual financial performance against the original budget.
	5.1.9 Legislate a debt ceiling.
	5.1.10 Strengthen the accountable officer requirements in the <i>Financial Management Act</i> to limit the ability of accountable officers to commit money for expenditure in excess of the approved budget and develop a Treasurer's Direction clearly outlining the sanctions for accountable officers for non-compliance with the Act.

Recommendations	
Goal 2 Financial management	5.2.1 Review the Financial Management and Accountability Framework and associated legislation, policies and procedures to ensure best practice.
	5.2.2 Introduce bilateral meetings with the Budget Review Subcommittee prior to and during the development of Budget Cabinet submissions.
	5.2.3 Require the OCPE to provide advice to Cabinet on submissions with staffing implications.
	5.2.4 Limit supplementary funding submissions outside of the budget development process to extraordinary items and, where possible, require the identification of offsetting savings.
	5.2.5 Develop clear and strict eligibility guidelines to support the assessment of Treasurer's Advance applications to ensure it is used for genuinely unforeseen and unavoidable circumstances.
	5.2.6 Publish a list of approved Treasurer's Advance items in the Treasurer's Annual Financial Report.
	5.2.7 Implement reward/milestone-based budgeting for new initiatives to incentivise the achievement of desired outcomes.
	5.2.8 Reward agencies that achieve outcomes and spend within their approved budget by allowing them to retain a share of underspends.
Goal 3 Workforce sustainability and capability	5.3.1 Implement a cap on Territory-funded FTE positions for the next three years, with growth in the cap thereafter limited to population growth.
	5.3.2 Implement an immediate recruitment freeze for agencies currently exceeding their expenditure budget.
	5.3.3 Incorporate staffing KPIs into chief executive performance agreements.
	5.3.4 Review ECO levels and their associated remuneration structure.
	5.3.5 Implement a cap on executive staffing (including SAO2/SP2 positions) with immediate effect, pending the outcome of the executive classification review (recommendation 5.3.4 refers).
	5.3.6 Convert all existing ECO1 positions to SAO2/SP2 positions as soon as practicable.
	5.3.7 Develop a new wages policy based on a \$1000 per annum wage increase, including a wage freeze for executives and parliamentarians.
	5.3.8 Rationalise awards, harmonise conditions and review entitlements across the NTPS.
	5.3.9 Explicitly prohibit back pay or equivalent sign-on payments under the new wages policy to encourage timely bargaining resolution.
	5.3.10 Expand the current PSEMA review to include assessment of the contemporaneity and efficiency of the broader NTPS employment framework including options to reduce duplication through consolidation of tribunals and legislation.
	5.3.11 Move industrial relations to the Treasurer's portfolio and merge the Wages Subcommittee with the Budget Review Subcommittee.
	5.3.12 Establish a whole of government strategic workforce board.

Recommendations	
Goal 4 Organisational efficiency and strategic alignment	5.3.13 Develop a comprehensive training program to address concerns about the hollowing out of policy, administrative and technical capability across the NTPS.
	5.3.14 Introduce a Job Family model for corporate roles common across agencies.
	5.4.1 Implement the next phase of shared services reform by further centralising corporate services in the Department of Corporate and Information Services.
	5.4.2 Further centralise infrastructure planning, management and delivery into the Department of Infrastructure, Planning and Logistics, including repairs and maintenance budgets.
	5.4.3 Restructure agencies to consolidate similar/related functions and reduce duplication.
	5.4.4 Implement a rolling program of organisational reviews.
	5.4.5 The annual schedule of reviews should be determined by the Budget Review Subcommittee as part of the Budget development process.
	5.4.6 Work with the Commonwealth and local government to improve remote service delivery coordination.
	5.4.7 Develop a centralised whole of government remote travel hub.
Goal 5 Evidence-based decision-making	5.5.1 Develop a whole of government program evaluation framework.
	5.5.2 Update the Cabinet submission template to include program evaluation requirements.
	5.5.3 Develop an annual schedule of evaluation of existing programs for approval by the Budget Review Subcommittee.
	5.5.4 Mandate the use of sunset clauses in new programs.
	5.5.5 Foster the development of behavioural economics capability across the NTPS with a focus on adopting proven approaches from other jurisdictions.
	5.5.6 Develop a process to ensure new and existing business-related regulations are actively maintained and improved through a regulatory stewardship model.
	5.5.7 Update the Cabinet submission template to include regulation evaluation requirements.
	5.5.8 Develop and communicate clear timeframes for decision-making processes to minimise the impact of beige tape and improve investor certainty.
	5.5.9 Publicly report actual performance against approved regulatory decision-making process timeframes through annual reports and budget papers.
	5.5.10 Mandate the use of sunset clauses in new regulations that affect the cost of doing business in the Territory.
	5.5.11 Implement the Northern Territory Project Development Framework (NTPDF) via Treasurer's Direction to support a structured approach to capital project development.
	5.5.12 Work with the Commonwealth to secure increased capital investment to address the Territory's infrastructure deficit.

Recommendations		
Goal 6 Digital transformation	5.6.1	Adopt a digital-first mindset in relation to government service delivery.
	5.6.2	Develop a digital government transformation plan to identify technologies that could create efficiencies in the delivery of government services across the Territory, such as telehealth/videoconferencing/drones.
	5.6.3	Undertake a whole of government ICT system stocktake.
	5.6.4	Develop and maintain a five-year ICT system roadmap outlining priority projects and major system replacement requirements.
	5.6.5	Rationalise the number of bespoke/standalone ICT systems across the NTPS.
	5.6.6	Develop and implement a single integrated budget management system for agencies.
	5.6.7	Develop an automation roadmap for Territory Government service delivery.
Goal 7 Revenue optimisation	5.7.1	Maintain a competitive taxation environment and revenue raising effort relative to other jurisdictions.
	5.7.2	Reform gambling taxation arrangements for bookmaker and betting exchange taxes.
	5.7.3	Increase accountability for the performance of government owned corporations against their statements of corporate intent, including developing clear sanctions for non-compliance.
	5.7.4	Develop a commercial asset management framework.
	5.7.5	Undertake a review of existing commercial assets in accordance with the commercial asset management framework.
	5.7.6	Develop a government services pricing framework.
	5.7.7	Commission an independent review of areas where Commonwealth expenditure in the Territory is lower than other jurisdictions (for example, Medicare) and where funding is required to close the gap in Aboriginal disadvantage.
	5.7.8	Seek relief of debt inherited from the Commonwealth on self-government.
Chapter 6 Reform implementation and monitoring	6.1	Adopt a staged process to budget repair, incorporating phases of reform linked to the annual budget development process.
	6.2	Implement the governance model outlined at Figure 13, including the establishment of a Budget Repair Standing Committee and Budget Repair Office.